IMS Capital

Quarterly Review

Q2 2021

Market Commentary

It might come as little surprise to hear that we spend a lot of time considering risk. Actually, it would be more accurate to say that we spend a lot of time thinking about risk**S**.

Broadly speaking there are two main types of risk from an investment perspective: systematic and unsystematic. The former refers to a system-wide shock that impacts on many areas of the market at one time whereas the latter relates to a problem within a specific company, region, or industry. Within these headings sit a number of other risks including but not limited to inflation risk (that price rises will erode the value of investments), default risk (that individual holdings will fail and lose their value), liquidity risk (where it is not possible to sell a holding), and political risk (this is less common in developed markets which are considered to have stable governments).

Aside from making sure that we pick fund managers with strong processes and controls, the main thing that we can do to control risk within our portfolios is to ensure there is sufficient diversification between different investment classes and regions. By doing this we can reduce the impact of an event that has a specific impact on one part of a portfolio. Our mandates provide us with guidelines within which we must sit, but in reality we are never likely to come close to breaching these limits because we are well aware of the benefits of investing across a wide range of assets. It is for this same reason that we do not align the portfolios to a specific outcome.

To illustrate this, imagine a picnic where you are catering for a range of guests with unknown tastes. One approach could be to prepare a very simple spread that whilst a little boring was unlikely to offend anyone's palette. That works as long as none of the guests are allergic to one of the sandwiches. The alternative is to provide a wide range of options in order to increase the chances that everyone has something they can eat. Then all you have to worry about is the systematic risk that it might rain!

As we head into the new quarter, we remain aware of a number of risks that could have an impact on portfolio returns. Inflation has been a key theme over the last few months and has certainly caused some ructions in fixed income sectors so far this year. We are also watching developments regarding President Biden's tax strategy which caused markets to wobble when the first details were announced at the end of April. Although the headline changes are not particularly notable from a historical perspective, the speculation about the potential impact on the tech sector bears consideration.

Covid of course remains the most clear and present danger. Western countries are, largely, benefitting from successful vaccination programmes leading to a corresponding boost to their economies, but in other areas, notably India, conditions are much less positive. As ever, we avoid putting all of our eggs in one (picnic) basket and aim to construct portfolios that can benefit from a range of market conditions.

IMS Capital

Performance Update

As we headed towards the end of the IMS quarter, stock markets continued their positive run and for the first time in history, world indices passed through the $111tn point. US markets can take a lot of the credit for this rise, but we do remain a little wary of their success as with every record that they break, valuations become more stretched. For now this appears to be supported by earnings which continue to surpass expectations by an average of around 80% over the last four reporting periods.

The success was not limited to America and most western countries performed well over the quarter, in large part thanks to the implementation of vaccination programmes. Smaller company sectors also enjoyed a strong period as their nimbleness and domestic focus allowed them to benefit from the reopening of economies.

Contrasting this were the fixed income sectors which struggled over the period. Bonds, especially those issued by governments, were hit by expectations of rising inflation and (on a longer term view) a tightening of monetary policy. As a result of the inverse relationship between their price and their income, where forecasts are that the latter might rise, the former falls and this left most assets in negative territory.

On a more positive note, according to the Link Group Dividend Monitor, UK dividend payments fell at the slowest rate since the start of the pandemic in the first quarter of this year which is good news for those seeking a natural income.

Portfolio	**3 month performance**	**12 month performance**	**36 month performance**	**60 month performance**	**12 month historical yield %**
IMS Defensive Income	0.90%	7.64%	10.75%	25.69%	2.42%
Benchmark	*1.22%*	*9.25%*	*10.75%*	*22.33%*	*n/a*
IMS High Income	3.87%	16.52%	15.20%	40.56%	2.85%
Benchmark	*4.39%*	*18.91%*	*17.47%*	*39.39%*	*n/a*
IMS Cautious	3.11%	12.44%	14.89%	36.65%	1.89%
Benchmark	*3.38%*	*15.52%*	*13.45%*	*30.70%*	*n/a*
IMS Balanced	4.45%	19.13%	19.94%	51.54%	1.70%
Benchmark	*5.40%*	*22.37%*	*21.58%*	*48.57%*	*n/a*
IMS Growth	4.66%	23.68%	23.77%	64.69%	1.54%
Benchmark	*5.83%*	*24.15%*	*22.78%*	*52.57%*	*n/a*
IMS Ethical	4.31%	22.15%	33.05%	65.18%	1.03%
Benchmark	*5.40%*	*22.37%*	*21.58%*	*48.57%*	*n/a*

All data are to 30/04/2021. Source: Financial Express Analytics

IMS Capital

Portfolio Change Summary

As is our preferred approach, at an asset allocation level we have only made minor changes to the sector weightings. We are confident that the portfolios remain well diversified, and we have adjusted the allocations to reflect our outlook for the coming months. In IMS Cautious and IMS Balanced we have made a small reduction to the UK Corporate Bond sector in favour of UK Equities. This is based on our view that inflation fears will continue to see rates on bonds rise (albeit slowly) which will negatively impact on prices whereas UK equities retain a degree of undervaluation that is not seen in other major markets. In IMS Ethical we have reduced our global equities weighting in favour of the UK for much the same reason.

In the Income models we have made two changes from a fund perspective. The first of these is to replace JPM Japan with Fidelity Japan Index. The main benefit of this change is to improve the income produced by the portfolios, and in addition the new fund will help to bring down the overall cost. The other alteration is to sell our position in Marlborough Global Bonds and to replace this with iShares Overseas Bond Index. Our research has identified a number of factors that lead us to question the fund's potential and in making this change we will further reduce the overall cost of both portfolios.

This change is mirrored within IMS Cautious where Marlborough is also held and in addition to this we have made a change to our US equity allocation in both this portfolio and IMS Balanced by removing our holding in Artemis US Select. This decision came as a result of our ongoing focus on value for money within the portfolios and our assessment identified that the Artemis fund was not offering value versus the low-cost passive fund with which it is paired. We considered alternatives but decided that the most appropriate approach was to move the weighting to the existing HSBC American Index fund.

The final notable change occurred in IMS Balanced and IMS Growth where we reintroduced an allocation to Man GLG Japan Core Alpha. This fund takes a distinctly different approach to many of its peers and is an excellent complement to our other Japanese holdings.

Tel: +44 2392 239800
Fax: +44 2392 263432
Email: info@imscapital.co.uk

5 Lancer House
Hussar Court
Westside View
Waterlooville
Hampshire
PO7 7SE