1825 Portfolio 2

Commentary second quarter 2021

This summary provides market commentary from our investment experts, and details any changes made to Portfolio 2 during the second quarter of 2021. The commentary is intended to give you a general overview of the market, and does not constitute advice.

In brief:

- All major world equity indices rise
- US shares are particularly strong, driven by technology stocks
- Government and corporate bonds rise, despite increasing inflation

Environment

Global equities gained over the second quarter, with most major world indices rising. US equities were particularly strong, driven by technology stocks. However, Japanese equities underperformed most major world indices, amid fears over rising coronavirus infections and the slow domestic vaccination programme. Positive economic figures from the US and China, ongoing fiscal policy measures and reassuring comments from global central banks supported sentiment. Investor optimism also improved on the back of largely successful Covid-19 vaccine rollouts. These offset fears over the delta variant that was responsible for an alarming rise in Covid-19 cases in India in April and that is quickly spreading to other countries across the world. From mid-May, investor focus shifted to corporate earnings announcements, which were generally better than expected. While some travel-related areas remain challenged, worldwide vaccine rollouts continue to accelerate. This has allowed businesses to reopen and the recovery to broaden out.

Following a challenging first quarter for bonds, they stabilised in the second quarter, with the sell-off in government bonds pausing early in the period. Government bonds generally rose as investors continued to seek out returns in a low-yield environment. In particular, investors favoured emerging market debt and inflation-linked securities. UK gilts were among the best performers, alongside US Treasuries and Japanese government bonds, while European bonds lagged. Corporate bond returns were also positive, despite the Federal Reserve announcing it would begin offloading corporate bonds bought through its pandemic support plan. Once again, sectors and issues that have been most affected by the pandemic continued to do well, as optimism around a global economic recovery increased. As a result, high-yield debt generally outperformed investment-grade issues, although all sectors and issuers posted positive returns.

Activity and performance

Please refer to Page 4 for a full breakdown of portfolio holdings.

Strategic Asset Allocation (SAA)

Strategic asset allocation (SAA) delivered strong outcomes over the second quarter, contributing positive returns.

After an incredibly challenging first quarter, we saw a broadly better outcome from fixed interest asset classes over the second quarter. UK government bonds delivered positive but rather pedestrian returns (1.7%), while central bankers continued to stick to the script that heightened inflation is transitory. However, the Fed's dot plot suggested that rate rises were closer to being realised than had been expected as recently as March. Bond markets have been less ready to accept the Fed's inflation view, with global index-linked bonds continuing to outperform their nominal peers again in the second quarter (up more than 2.9%). Full maturity UK investment-grade bonds performed marginally better than gilts, benefiting from not only the fall in government bond yields, but also the tightening of credit spreads. Short duration UK investment-grade credit lagged the gilt market, as the lack of interest-rate sensitivity proved a headwind. Global high-yield bond positions rallied hard as credit spreads fell back to levels experienced before the pandemic began. There was also a strong showing from both hard- and local-currency emerging market debt. They returned 3.8% and 3.5% respectively, in sterling terms (following a difficult first quarter), benefiting from lower US Treasury yields and a weaker US dollar.

Equities (in the main) performed well over the three months to the end of June. The US and Europe were the most productive regions from a returns perspective (up 8.41% and 8.27%, respectively). The continued roll out of vaccine programmes and the scheduled opening up of economies provided a boost to performance in these regions. Meanwhile, the UK, emerging markets and Asian equity markets delivered solid but less impressive returns (5.6%, 5.12% and 4.95%, respectively). The Japanese equity markets have been the real laggard this quarter, with rising Covid-19 cases and further lockdown measures really weighing on the region (Topix being down 0.89% in sterling terms).

Alternative asset classes performed strongly over the second quarter. Infrastructure assets benefited from the perception that positive progress is being made on the proposed bipartisan bill to increase the level of spending on US infrastructure projects.

Tactical Asset Allocation

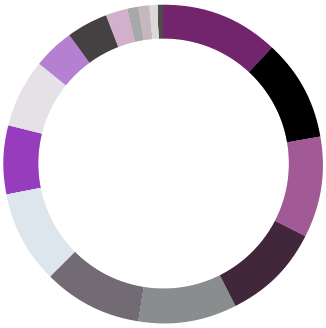
Tactical asset allocation (TAA) delivered mildly positive outcomes during the quarter.

The Portfolio benefited from an underweight position in UK nominal government bonds, although the underweight to UK index-linked gilts weighed on returns. These underweights helped fund overweight positions in global high-yield bonds, as well as equities in our preferred regions of the US, UK and emerging markets. These overweight positions all contributed positively to returns, bar global high yield, which was a mild detractor from performance.

Manager selection

Fund selection was a positive influence over the second quarter. Specific areas of strength included absolute return, emerging market debt (hard currency) and global listed infrastructure. Within absolute return, there was an especially strong showing from the Fulcrum Diversified Core Absolute Return Fund, with robust returns also being delivered from the TwentyFour Absolute Return Credit Fund and the ASI Global Absolute Return Strategies Fund. Within emerging market debt, the Barings Emerging Markets Sovereign Debt Fund delivered strong returns over the quarter, after lagging the market over the first quarter. Meanwhile, within global listed infrastructure, the First Sentier Global Listed Infrastructure Fund built on the solid performance that it exhibited over the first quarter. Areas where selection was less strong included global inflation-linked government bonds, where the L&G Global Inflation Linked Bond Index lagged the index. Selection was also relatively weak in global high yield, where the Pimco Global High Yield Bond Fund (with its higher-quality style tilt) delivered returns behind its benchmark. There was also a weaker showing from the Vanguard US Equity Index Fund, whose small- and mid-cap tilt fared less well over the second quarter, with the mega-cap-orientated S&P 500 Index outperforming. The Fidelity Asia Fund also faced a more challenging quarter, giving back the outperformance generated over the first quarter, and a little bit more. Overall, however, fund selection contributed positively to returns.

1825 Portfolio 2 Asset class breakdown



Absolute Returns	12.10	UK Equities	6.75
US Equities	10.30	Sterling Corporate Bonds	4.16
UK Government Bonds	10.20	Sterling Corporate Bonds 1-5 Years	4.13
Emerging Market Debt Hard Currency (Hedged to Sterling)	10.15	European Equities	2.27
Emerging Market Debt	9.98	Asia-Pacific ex Japan Equities	1.19
Infrastructure	9.88	Japanese Equities	1.19
Hedged High-Yield Bonds	9.50	Emerging Market Equities	0.67
Global Inflation Linked Government Bonds	7.02	Cash & Money Markets	0.49

The comments above refer to the past. Past performance is not a reliable guide to future performance. As with any investment, the value of your portfolio can fall as well as rise – you may get back less than you pay in.

Outlook

The global economy will likely experience a period of above-trend growth as it rebounds out of the Covid-19 crisis. The current market backdrop is supportive for equities, with investor concern about long-term inflation abating and developed market monetary policy remaining accommodative. Moreover, better company fundamentals have also kept investors buoyant. However, it is still possible that inflationary concerns may re-emerge. Additionally, central banks have started to signal the need to reduce asset-repurchase programmes. Also, as the investment cycle matures, valuations rise and sentiment improves, prospective returns should steadily diminish.

Within fixed income, increasing vaccine dissemination and the progressive easing of Covid-19 mobility restrictions are supporting both economic activity and sentiment. The economic recovery in the US has been particularly strong, with an annualised real GDP growth rate of 6.4% in the first quarter. As a result, inflation has also been picking up strongly, and a key focus of investor attention is on whether this will be transitory or more long-lived. Evidence suggesting the latter would not be seen favourably.

1825 Portfolio 2 breakdown	Q2 2021
Holding	**Weights**
Absolute Returns	**12.10**
ASI Global Absolute Return Strategies Fund Accum Institutional Units S GBP	3.03
Invesco Global Targeted Returns Fund Accum Y GBP	3.00
TM Fulcrum Diversified Core Absolute Return Fund Class C GBP Accum Shs	3.04
Vontobel Fund SICAV TwentyFour Absolute Return Credit Fund G Capitalisation	3.04
Asia-Pacific ex Japan Equities	**1.19**
Fidelity Asia Fund Accum W GBP	1.19
Cash & Money Markets	**0.49**
British Pounds	0.49
Emerging Market Debt	**9.98**
Legal & General Emerging Markets Govt Bond (LC) Index Fd Accum Units Class C GBP	9.98
Emerging Market Debt Hard Currency (Hedged to Sterling)	**10.15**
Barings Emerging Markets Sovereign Debt Fund GBP Tranche B	10.15
Emerging Market Equities	**0.67**
Artemis Funds (Lux) SICAV Global Emerging Markets FI Capitalisation	0.33
RWC Global Emerging Markets Fund S GBP Capitalisation	0.34
European Equities	**2.27**
Aberdeen European Equity Enhanced Index Fund accum N GBP	0.63
Blackrock European Dynamic Fund Class FD GBP Units	0.64
Invesco European Equity Income Fund (UK) Y GBP	0.39
Schroder European Fund Class L GBP Ptg Units	0.62
Global Inflation Linked Government Bonds	**7.02**
Legal & General Global Inflation Linked Bond Index Fund Class C GBP Units	7.02
Hedged High-Yield Bonds	**9.50**
Pimco Global High Yield Bond Fund Institutional GBP Hedged Class	9.50
Infrastructure	**9.88**
First Sentier Global Listed Infrastructure Fund B GBP	9.88
Japanese Equities	**1.19**
Legal & General Japan Index Trust Class C GBP Units	1.19
Sterling Corporate Bonds	**4.16**
Blackrock CIF iShares Corporate Bond Index Fund (UK) Units H GBP	4.16
Sterling Corporate Bonds 1-5 Years	**4.13**
Vanguard UK Short Term Investment Grade Bond Index Instl Plus GBP Accum Ptg Shs	4.13
UK Equities	**6.75**
JOHCM UK Dynamic Fund Class Y GBP	1.52
JPM UK Active Index Plus Fund Class E GBP Accum Shs	3.03
Lazard UK Omega Fund Class F GBP	1.51
LF Tellworth UK Smaller Companies Fund Accum F Unhedged GBP	0.68
UK Government Bonds	**10.20**
Vanguard UK Government Bond Index Fund Institutional Plus Class GBP Ptg Shs	10.20
US Equities	**10.30**
Vanguard US Equity Index Fund Institutional Plus Class GBP Ptg Shs	10.30
	100.00%

Each client portfolio is reviewed and rebalanced regularly where necessary. Fund selection and asset allocation are monitored on an ongoing basis, and will be changed as considered appropriate by the Portfolio Managers.

Charges

The ongoing charges figure quoted below includes the abrdn discretionary investment management charge (0.20%) and fund level management charges. It does not include product and adviser specific charges – speak to your abrdn Financial Planner for full details.

Ongoing charges figure	0.61%

Note: the Portfolio holdings,asset class breakdowns, and ongoing charges, figure shown on this page are correct as at 30/06/2021. They will change from time to time. Source: abrdn.

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