



IFSL Equilibrium Defensive Portfolio

Each month we provide factsheets for the IFSL Equilibrium funds which give details of the holdings as at the end of the month, together with market commentary.

In addition to this, each quarter we provide more detailed analysis of the holdings, focusing on what has been performing well and what has been underperforming.

Key

A = Alternatives

EQ = Equities

CPI = Consumer Price Index (inflation)

C = Cash

FI = Fixed Interest

DR = Defined Returns

RA = Assets

Asset allocation changes

The table below shows our current allocation compared to three months and 12 months ago, the changes are highlighted from dark green to dark red in terms of largest increase to largest decrease.

Asset	Current %	3 months ago %	3 month change %	12 months ago %	12 month change %
Cash	3.7	13.3	-9.7	2.6	1.1
Fixed Interest	66.9	52.3	14.6	52.2	14.6
Real Assets	8.7	10.8	-2.1	14.5	-5.8
Defined Returns	5.5	2.3	3.2	0.0	5.5
Alternatives	7.0	13.1	-6.0	22.5	-15.5
Equity	8.2	8.2	0.0	8.2	0.0

Recent fund changes

The tables below show any significant changes we have made to the holdings in the portfolio over the quarter.

Significant increased positions

Asset class	Fund	Current %	3 months ago %	3 month change %
FI	Aegon High Yield Bond	5.01	-	5.01
FI	Man GLG High Yield	5.01	-	5.01
RA	iShares UK Property	3.41	-	3.41
DR	Atlantic House Defined Return	2.95	-	2.95
FI	TwentyFour Monument Bond	5.06	2.46	2.60

Significant decreased positions

Asset class	Fund	Current %	3 months ago %	3 month change %
C	BlackRock Sterling Liquidity	0.53	5.76	-5.23
C	BlackRock US Treasury Liquidity	1.50	5.79	-4.29
A	THEAM Dynamic Volatility Carry	-	3.01	-3.01
FI	Vanguard UK Investment Grade Bond Index	-	3.01	-3.01
A	Carmignac Long-Short European Equities	-	2.96	-2.96



Contribution to return by sector

The table below shows each of our asset classes and the equity regions we invest in. It breaks down the average exposure, the return for the asset class over the period we have been invested and the contribution to the overall portfolio return over three months and 12 months.

Asset	3 months			12 months		
	Average weight %	Asset class return %	Contribution to return %	Average weight %	Asset class return %	Contribution to return %
Cash	5.8	0.2	0.0	6.8	1.5	-0.1
Fixed Interest	58.8	-1.2	-0.7	56.0	-3.0	-1.1
Real Assets	11.0	-3.2	-0.3	12.1	-15.6	-2.2
Defined Returns	3.3	2.5	0.1	1.8	6.8	0.2
Alternatives	12.9	-1.1	-0.1	15.2	-1.5	-0.1
Equity	8.2	2.5	0.2	8.2	4.1	0.4
Overall Portfolio			-1.5			-4.4

Asset class portfolio return and contribution to return calculations use daily positions and don't take into consideration charges, aggregated contribution to returns may not equal overall portfolio return.

Regional equity portfolio	3 months			12 months		
	Average weight %	Equity region return %	Contribution to return %	Average weight %	Equity region return %	Contribution to return %
UK Equity	2.6	-5.8	-0.2	2.6	-13.7	-0.4
Global Developed	5.7	6.4	0.3	5.6	13.0	0.7
Vol Trade	-	-	-	-	-	-



Top and bottom contributors to return

The tables below show the top and bottom five contributors to return over the past three and 12 months, it breaks down the average exposure, the return over the holding period and the contribution to the overall portfolio return.

Top five contributors over three months

Asset class	Asset	Average weight %	Current weight %	Holding return %	Contribution to return %
EQ	L&G US Equity Responsible Exclusion ETF	2.5	2.6	7.7	0.2
RA	Civitas Social Housing	0.2	0.0	49.8	0.2
FI	Royal London Short Duration High Yield Bond	5.1	4.9	1.9	0.1
EQ	Royal London Global Equity Select	1.1	1.2	8.7	0.1
EQ	Morgan Stanley Global Brands	2.1	2.1	3.3	0.1

Bottom five contributors over three months

Asset class	Asset	Average weight %	Current weight %	Holding return %	Contribution to return %
FI	Allianz Strategic Bond	5.0	5.0	-6.8	-0.4
FI	iShares Core UK Gilts ETF	4.7	5.6	-6.3	-0.3
RA	iShares UK Property	1.5	3.4	-9.4	-0.3
A	Ruffer Diversified Return	4.0	3.9	-5.0	-0.2
A	Foresight UK Infrastructure Income	2.4	0.0	-6.8	-0.2

Top five contributors over 12 months

Asset class	Asset	Average weight %	Current weight %	Holding return %	Contribution to return %
EQ	L&G US Equity Responsible Exclusion ETF	2.5	2.6	15.1	0.4
FI	Royal London Short Duration High Yield Bond	4.5	4.9	7.2	0.3
FI	TwentyFour Monument Bond	4.4	5.1	5.2	0.2
EQ	Royal London Global Equity Select	1.0	1.2	20.4	0.2
DR	Goldman Sachs FTSE/S&P Autocall Oct 2022	1.6	2.6	7.2	0.2

Bottom five contributors over 12 months

Asset class	Asset	Average weight %	Current weight %	Holding return %	Contribution to return %
RA	Gravis Clean Energy Income	1.5	2.0	-21.6	-0.5
A	Foresight UK Infrastructure Income	2.8	0.0	-17.8	-0.4
FI	iShares Core UK Gilts ETF	4.9	5.6	-13.9	-0.4
EQ	Miton UK Multi Cap Income	2.6	2.4	-13.7	-0.4
RA	Supermarket REIT	0.9	0.0	-29.9	-0.3

Portfolio commentary

Whilst inflation appears to have peaked in many regions, the main driver of markets continues to be the pace that central banks are raising rates. Rates are now likely to go higher than many had previously expected, and markets remain very sensitive to new releases of inflation data which could affect monetary policy.

Against this backdrop the Defensive fund returned -1.40% over the quarter, with the largest detractors coming from the most rate-sensitive parts of the portfolio.

Our biggest detractor was the Allianz Strategic bond fund costing the fund 0.4% as the fund's longer-duration positioning hurt as rates moved higher. With the Bank of England raising



rates from 4.25% to 5% over the quarter, our Gilt ETF also detracted 0.3%.

This was the same for iShares UK Property ETF which detracted 0.3%. Increases in borrowing costs have hit the property values and resulted in the income streams appearing less valuable compared with higher cash rates. With many of the underlying REITS trading at a significant discount to their net asset values we feel the market is overly pessimistic about a number of these properties, and should inflation fall back, property looks very attractive at current pricing levels.

With 13 rate hikes in a row from the Bank of England and the market pricing in further rises in the future, the shape of the yield curve remains deeply inverted (meaning short interest rates are higher than long interest rates) which has historically indicated a recession. However, despite these warning signs, parts of the equity market continue to power on.

Our biggest contributor was the L&G US Equity Responsible ETF, with the seven largest tech enabled companies continuing to power on at the top of the US market. This added 0.2% to performance as investors optimistically priced in advances in artificial intelligence.

Also adding 0.2% to attribution was the Civitas Social Housing fund which we sold following a takeover bid. While this was trading at an exceptionally depressed valuation, this does illustrate the value in some of the REIT names and why we continue to hold the iShares Property ETF.

Looking forward, while inflation appears to have peaked in many regions it remains stubbornly high in the UK. This is largely driven by the leisure sector (package holidays, computer games and live music) leading markets to price in a much higher peak than only last month. Should inflation start to fall back, both equity and fixed interest markets look attractive on a relative and absolute basis and so could deliver strong returns over the medium term from here.

Performance

Rolling total returns

	10 years %	5 years %	3 years %	1 year %	6 months %
Fund	23.66	4.38	-4.80	-4.40	-1.28
BOE base rate +3%	43.96	21.57	13.16	6.15	3.49

Further reading

For holdings and market commentary as at the end of the month, please see our [latest monthly factsheets](#). Attribution analysis is for indication only.

Risk information

All data is from 30 June 2023 and provided by Equilibrium Investment Management LLP unless otherwise stated. The views expressed herein should not be taken as statements of fact or relied upon when making investment decisions.

Past performance is never a guide to future performance. Investments may (will) fall as well as rise and you may not get back your original investment. Changes in currency exchange rates or interest rates may have an adverse effect on the value of your investments.

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