HYMANS ROBERTSON
INVESTMENT SERVICES

Hymans Robertson Investment Services (HRIS)

HRIS' equity & bond exposures: Key takeaways for Advisers

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We recently completed our 2025 strategy review (with portfolio changes coming into effect at the end of June). Following this review, we thought it was an opportune time to provide a reminder of our investment philosophy, alongside some of the key aims and characteristics of the equity and bond exposures in our portfolios.

Background

Our investment philosophy underpins all our decisions and approach to investing. The table below provides a high-level overview as to how our philosophy is reflected in our portfolios; in the remainder of the document, we then focus specifically on the equity and bond elements, setting out the rationale for our current allocations.

HRIS Investment philosophy		How this is reflected in our portfolios
Investment strategy is the key determinant of an investor's future investment outcome	➡	Strong emphasis on "Top Down" positioning i.e. identifying the best in class mix between equities and bonds/regional allocations etc. Final portfolios are only selected after rigorous process including testing their robustness across a range of potential future economic scenarios.
Diversification improves the stability of future returns	➡	Well diversified – holding a range of different asset classes, styles and managers. Portfolios typically have around 20 fund holdings, with each representing a key "jigsaw piece" in the overall portfolio construction.
Short-term market influences are often sentiment led and less reliable indicators of long-term future performance. However, markets are dynamic over the medium-term and can offer scope to capture opportunities with predictable outcomes, even where timing is not certain.	➡	Relatively low turnover – we don't believe in tactical trading but will exploit medium-term opportunities if they emerge (for example, every 2-3yrs).
Quality research can enhance outcomes	➡	Populated by around 10 high quality managers – who are selected following HRIS's detailed research process.
Implementation should be efficient	➡	Relatively low cost – including targeted use of active and factor, as well as access to several funds with discounted share classes of 20-30%.

HRIS' equity positioning

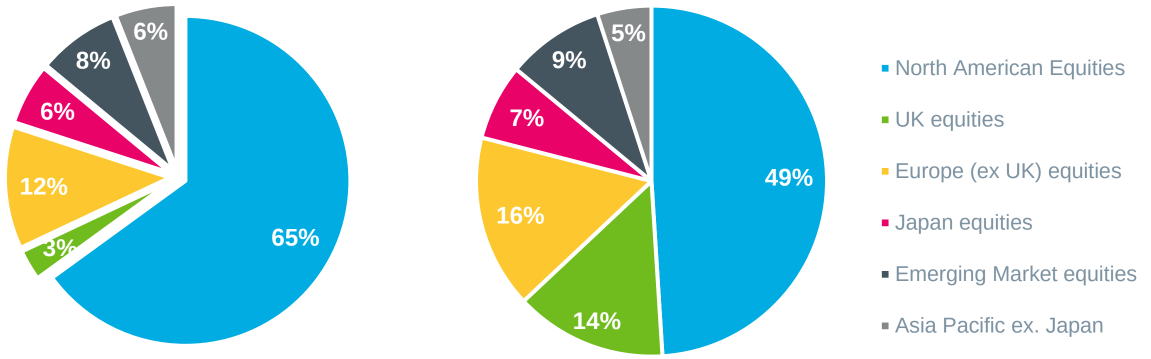
Key points

- **Role within portfolios:** The primary growth engine - over the long-term equities have generated strong returns in excess of inflation.
- **Primary elements of diversification that we seek to include:** Regional, sector, style, stock, fund and manager.
- **Main change as part of our recent annual strategic review:** introduce a new multi-factor fund to support our belief in factor and our desire for diversification.

Chart 1 below summarises the regional equity breakdown of our portfolios and for the "market" (based on the global equity market capitalisation "market cap" index). It's important to note that our regional split is based on our views – it's not built relative to the market cap index, we show it purely as a point of reference.

As shown, relative the market cap, our most notable positions are a lower North American equity exposure and higher exposures to the UK and European markets. Key drivers of this positioning include our desire for style diversification e.g. the North American market gives us good exposure to more growth-oriented companies, including the technology companies; while Europe and the UK gives us good exposure to more value type companies e.g. Financials and Consumer Staples. We believe that over the long-term this regional and style diversification will be beneficial to end investors, particularly during periods of market volatility.

Chart 1: Regional equity positioning



Market-weighted regional equity split **HRIS regional equity split**

Source: Morningstar, HRIS representative portfolio. Actual allocations may vary slightly by portfolio and investment platform.

Although we hold significantly less in North America than the market, this region does represent a notable proportion of our equity exposures. This is based on a balanced view that takes into account the challenges that the US market faces at this time e.g. political uncertainty, expensive relative to history (especially larger companies) and highly concentrated with the top 10 stocks in the US representing almost a third of the total market. However, it also reflects positive aspects associated with the US e.g. the US is the largest global economy and will therefore continue to act as a key engine for global growth and it has exposure to several world-leading firms, most notably in the technology area.

In terms of implementation, we use a range of approaches to access the US market (and other equity markets), including multi-factor funds[1], a small cap fund and using (where cost constraints permit) active managers.

As part of our 2025 strategy review, we trimmed our UK equity allocation and added to our global multi-factor allocation, via a fund managed by HSBC. This was driven by a desire to increase the factor and manager diversification within our portfolios, something that we think is particularly important given the heightened market volatility.

As a result of our regional diversification, and adopting multiple routes to accessing markets, our portfolios have considerably lower stock concentration i.e. compared to the "market", we are less reliant on the performance of a small number of stocks for future returns (see Chart 2 below). For example, the combined total of the top 10 equity holdings in the HRIS portfolio is over one third lower than combined top 10 holdings of the market cap.

[1] A **multi-factor fund** is a fund that looks to take overweight positions in stocks that look attractive across a range of "factor" e.g. value (cheap), quality, lower volatility etc with the aim of enhancing returns i.e. like a traditional active manager does. The multi factor funds we use have costs more akin to traditional passive funds.

Chart 2: Top 10 equity holdings

Top 10 holdings: Market Cap	Allocation
Nvidia	4.1%
Microsoft	4.0%
Apple	3.7%
Amazon	2.4%
Meta	1.8%
Broadcom	1.3%
Alphabet A	1.2%
Tesla	1.2%
Alphabet C	1.1%
Taiwan Semiconductor	1.0%

Top 10 holdings: HRIS	Allocation
Microsoft	2.8%
Nvidia	2.4%
Apple	2.4%
Amazon	1.8%
Taiwan Semiconductor	1.2%
Alphabet A	1.1%
Meta	0.9%
Unilever	0.9%
AstraZeneca	0.9%
HSBC	0.8%

Source: Morningstar, HRIS representative portfolio. Actual allocations may vary slightly by portfolio and investment platform.

HRIS' Bond positioning

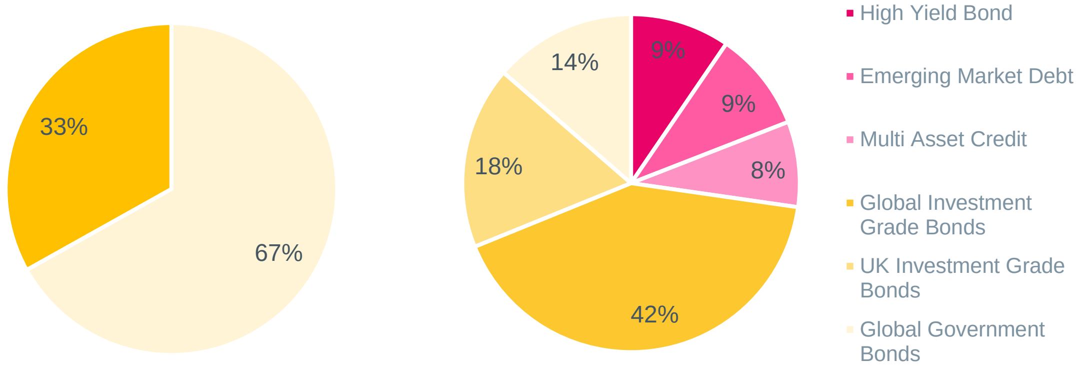
Key points

- **Role within portfolios:** Government and high-quality investment grade bonds should provide protection at times of market stress. Other bonds, such as High Yield and Emerging Market Debt, have more of a 'growth' role, supporting returns and diversifying equity returns.
- **Primary elements of diversification that we seek to include:** Regional, "duration" i.e. bond interest rate sensitivity, bond issuer e.g. a government or company, bond quality "rating".
- **Main change as part of our recent annual strategic review:** increase the interest rate sensitivity of the portfolio (thereby increasing returns prospects if interest rates fall, whilst also providing a potential offset to equity markets falling) and introduce a new global government bond fund to support diversification.

We access the bond market through a range of asset classes including government bonds, investment grade bonds, high yield corporate bonds and emerging market debt.

Chart 3 below summarises our bond allocation versus the "market" (as based on a global investment grade bond market capitalisation index - again the market allocation is just shown for reference). Relative to the market, HRIS bonds have a lower US and a higher UK exposure; they also have more in other bonds such as High Yield, Emerging markets and multi-asset credit funds (multi-asset credit are funds which hold a range of different types of bonds). Alongside cash, our bond holdings are determined by balancing capital preserving assets with more return seeking assets to enhance outcomes for our clients, When it comes to implementation, we have targeted active manager exposure in areas such as high yield bonds and multi-asset credit as there is evidence that active managers' skills, e.g. assessing risk of default, can add value, net of fees.

Chart 3: Bond positioning



Market-weighted bond allocation **HRIS bond allocation**

Source: Morningstar, HRIS representative portfolio. Figures shown above are as a percentage of the fixed income (bond and alternative credit) allocation. Actual allocations may vary slightly by portfolio and investment platform.

As part of our 2025 strategy review, we added to our interest rate sensitivity and our global government bond exposure via a fund managed by Aberdeen. These changes reflect the higher levels of yields (i.e. expected return if a bond is held to its maturity) that we now see in global government bonds (the currency risk associated with our global government bond allocation is hedged back to sterling).

We believe the recent changes support portfolio diversification and should be particularly valuable in the event of concerns over global growth. Nevertheless, in aggregate, our bond exposures continue to have a lower sensitivity to interest rate changes than the broader market, this is driven by our desire to seek a pragmatic balance between seeking returns and having an eye on greater certainty of absolute value in this element of the portfolio, rather than naively adopting the (higher) interest rate sensitivity of the market.

Summary

Equities and bonds are the cornerstones of our portfolios. Considerable thought, research and analysis goes into building how we gain exposure to these two key asset classes.

Our aim is always to build portfolios that align to our investment philosophy, most notably taking a long-term view and being well diversified. We believe the changes made at our strategic review, particularly the addition of the new multifactor global equity fund and new global government fund, very much align with our philosophy and should enhance client outcomes in a range of market conditions.

Daniel Kowalewicz
Client Portfolio Manager

Risk warning

The value of your investments and the income from them may go down as well as up and neither is guaranteed. Investors could get back less than they invested. Past performance is not a reliable indicator of future results. Changes in exchange rates may have an adverse effect on the value of an investment. Changes in interest rates may also impact the value of fixed income investments. The value of your investment may be impacted if the issuers of underlying fixed income holdings default, or market perceptions of their credit risk change. There are additional risks associated with investments in emerging or developing markets. The information in this document does not constitute advice, nor a recommendation, and investment decisions should not be made on the basis of it. The material provided should not be released or otherwise disclosed to any third party without prior consent from HRIS.