

KMG Autumn Investment Strategy Update – September 2023

We can see light at the end of the tunnel! The Investment Committee met last week to review our investment strategy as we move into the autumn period and reconsider our investment horizons over the next 24 months. We will be discussing this in more detail at our investment seminar on Wednesday 11th October which we encourage you to attend. At the seminar you may cross-examine us and hear more detail on what is going on in the global economy as well as our thinking about the future.

We are unlikely to see a recession in America but some stagnation; in the UK there may be a mild recession, and it could be a bit more significant in Europe. The irony however for you and your investment portfolios is that this is good news! As interest rates peak and will probably start to decline during the course of 2024, as unemployment rises to a more sustainable long-term average of about 5% and as the global economy settles down to inflation probably nearer to 4% (in the short term) than 2%, these factors will benefit your portfolio in a number of different ways. We are not particularly worried about the increase in the oil price at the moment because as we have mentioned before, the higher the price the faster decarbonisation takes place and the faster alternative energy streams come online with much lower inflationary impacts, all of which are good news for the portfolios.

The fixed interest element of your portfolio will start to rise as the assets that we have bought and are buying will perform well. This will come from a combination of interest being paid and capital recovery as the assets increase in value and as interest rates come down.

The equity section of the portfolio will also move ahead, but we have to take a more pragmatic view that whilst we all need to invest in those things that will save the planet from climate change, we must also be realistic in understanding the speed of change for many is going to be very challenging. Therefore, we need to have a balance of investments in the portfolio which will perform well alongside our existing themes and so we have made some minor alterations in both the equity and fixed interest allocations of the portfolio to reflect the changing reality of global evolution.

For those of you wondering about interest rates, our best guess is that US interest rates by 2025 will be back to 3%, in the UK between 3.5% and 4%, but most importantly the natural rate of return on cash is about 2.75% if central banks remain fixated about getting inflation back to 2% - which thus far they have constantly told us they are determined to achieve.

To put our performance into context we felt it would be helpful to compare KMG returns with those of our peer group (ARC which is the average of all funds with these risk profiles in the market), but also in comparing the FTSE index which has had a remarkable recovery recently and show this against our full equity portfolio to demonstrate that we have outperformed the FTSE index over five years and outperformed the ARC equity index by a very significant margin.

The medium high portfolio has been running for many years and our fund equivalent, the VT KMG IM Growth fund, has been running for three years and mirrors the same investment strategy albeit with slightly different charging structures and tax implications, but the overall risk profile and strategy are the same. The most important observation to reconfirm is that staying the course and remaining invested through challenging times in the end produces the best outcomes.

Further good news is that the cost of the underlying funds will reduce for the portfolios. The VT KMGIM fund charge remains the same at 0.90% fund fee, all-inclusive of management charges. Portfolios have the additional cost of Discretionary Management charges of 0.3%.

There are no tax consequences for changes in the fund, and in the portfolio if held in a Pension or Individual Savings Account. If the portfolio is held in a non-tax efficient manner, then there may be capital gains tax implications.



31/08/2018 - 31/08/2023 Data from FE fundinfo 2023

Yours sincerely,

The KMG Team

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