

**June 2023**

## **KMG July Investment Strategy Update**

### **Rebalancing your portfolios July 2023**

The subject of cash, and the interest rates that can be achieved compared to the zero rates we have been used to over the past 10 years or so, has become increasingly meaningful and common place. We have therefore enclosed a note with our thoughts on the subject and why, if the past is any guide at all, inflation can be a strong component of future financial security - as we saw following similar inflationary concerns in the 1970s and 80s.

As we have just seen from the Bank of England, inflation is still too high. Nonetheless, it was always likely to take much of the year to get to where Rishi has promised, roughly half of the peak rate we saw earlier in the year and the threat of too much action, raising rates too far and too fast causing a deeper recession is a real dilemma.

As our expectation is that inflation will continue to fall, some of the assets we held as a hedge are less necessary and reducing these provides an opportunity to move funds towards Japan, whose economy is set to continue to do well after many, many years of unfulfilled promise.

### **Investment changes**

In anticipation of the above we are reducing assets that provided inflation protection. This was a hedge against rising inflation where the inflation was caused by too much economic activity, but not where it comes from rising wages rather than commodity prices, nor when we are running the risk of recession.

We are therefore proposing to replace the Cohen & Steers Diversified Real Assets fund with a more equity orientated fund focusing on Japan – the M&G Japan fund.

Full details of the changes along with the Key Information will be shown on the KMG website.

### **Tax**

Where changes are made within portfolios there may be some capital gains tax incurred when switching outside a tax-free wrapper. Any changes within the VT KMGIM Growth fund will not be taxable.

### **Fund charges**

The fund charges for the portfolios will either remain the same or decrease slightly as a result of these changes. The High portfolio will decrease by 0.01%. There is no change to the fund fee of the VT KMGIM Growth fund.

More details of the changes are shown on the KMG website at the following address:

<https://www.kmg.co.uk/funds>

Thank you for your continued support. We do feel very positive that we are following a sensible, broadly diversified approach as the economic cycle turns.

Best wishes and yours sincerely,

*The KMG Team*

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