For professional advisers only

Date:
31st March 2021 -
30th June 2021

Cornerstone Asset Management Investment Report

WAVERTON

Contents

defaqto EXPERT RATED ★★★★★ DFM MPS on Platform 2021

Introduction

Thank you for your investment in the Cornerstone/Waverton MPS on Platform. We are pleased to provide our report for the second quarter of 2021.

Our Portfolio Range

We manage portfolios across the risk spectrum. This platform based portfolios are available exclusively to clients of Cornerstone Asset Management to provide a cost effective and efficient means of investment.

Our portfolio range is shown below:

Portfolio	Investment Objective	Risk Category
Cornerstone Active Growth | 5	CPI+5%	High
Cornerstone Active Growth | 4	CPI+4%	High / Medium
Cornerstone Active Growth | 3	CPI+3%	Medium
Cornerstone Active Growth | 2	CPI+2%	Low / Medium
Cornerstone Active Income | 2	CPI+2%	Low / Medium

More details of each mandate, including the benchmark, volatility range and risk category explanation can be found on page 10.

Our investment approach

The portfolios invest in a diversified range of assets which seek consistent, less volatile returns when compared to the market. This involves blending a variety of different asset classes so that the portfolio participates in some of the upside in rising equity markets, but also aims to limit some of the downside when markets are falling.

Waverton has an active approach to investing both at the asset allocation and fund selection level. In terms of asset allocation the strategic positions are constantly reviewed and tactically adjusted according to market conditions. Our tactical asset allocation is driven by the Waverton Asset Allocation Committee which meets every six weeks or more frequently, if required, and ensures portfolios are managed in accordance with their long-term objectives but also with a degree of latitude, particularly important as Waverton is a house which is flexible and pragmatic and does not seek to 'hug' benchmarks.

The portfolio's asset allocation is implemented by weightings to our asset class wrappers specifically created and managed for this purpose. Each fund provides focussed access to one of the major asset classes of global equities, fixed interest and alternative investments. Importantly, the funds are managed on a complementary basis with the aim of controlling the duplication of underlying holdings and risk of the overall portfolio. The use of these funds provides diversification benefits, with a broad range of holdings within each fund, and tax efficiencies.

All portfolios are constantly monitored to ensure that they are consistent with the original mandate, our house view and the risk parameters of the portfolio.

Market Perspectives

JULY

THE LAST QUARTER...

- Both stocks and bonds make progress, led by the US stock market (up 8.5%).
- Japan is a laggard – down 0.4% in sterling terms.
- Gold recovers some of the ground lost in Q1 (up 4.1%).
- US consumer price inflation reaches 5% – the highest since 2008, with May seeing the largest monthly increase since 1982.
- The Chicago Purchasing Managers' Index is at its best since 1983; UK manufacturing grows at its fastest rate since 1975.
- Global house prices see greatest rate of appreciation since 2006.
- Figures show that UK rail journeys fell to their lowest level since 1872.
- Central Bank of Canada announces tapering of asset purchase programme.

> "By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens."
>
> **John Maynard Keynes,** *The Economic Consequences of the Peace (1919).*

Inflation is picking up.

The big story of the last quarter has been the rise in consumer price inflation across North America and Europe. Inflation (CPI) has reached a thirteen-year high of 5% in the US and, whilst the headline rate in the UK remains modest at 1.5% in May, that was double April's number (0.7%); the latest figure for the Euro area, at 2.0%, is dramatically different to a deflationary –0.3% last September. Much of this was to be expected on the bounce-back from price falls that were seen in the darkest days of the pandemic. Oil prices are up from $41 a barrel a year ago to $75 now, and other commodities like iron ore, platinum and lumber have seen similar increases as demand has recovered. Some pockets of inflation have been caused by specific constraints on supply – for example second hand car prices have rocketed not only because fewer cars were manufactured a year ago but also people are seeking to move away from public transport. Semiconductors have become more expensive following a number of factory production issues around the world, and in the UK the hiatus around Brexit has caused a degree of dislocation in some sectors – and an ongoing shortage of lorry drivers may have an impact on food prices.

Central banks consider this increase to be 'transitory'.

Looking at each of these inputs in detail, it is possible to make a case that headline price inflation is temporary. The US Federal Reserve certainly seems determined to regard the latest up-tick as 'transitory', and is correspondingly reluctant to raise interest rates until 2023. The Bank of England essentially agrees. However, the markets are not so sure: the 5-year US inflation swap has risen from a below 0.5% last year to 2.6% now. Couple the real-world examples of rising prices described above with the notion that massive government borrowing and central bank money-printing debases the value of fiat currencies – and you have a persuasive narrative that inflation will run out of control.

There are good reasons to think it might be temporary...

However, it is worth examining the counter-arguments. Some of the recent price rises will definitely be temporary: commodity prices tend to move quickly in response to supply and demand changes, but high prices soon revert as capacity comes on stream and demand chokes off (lumber prices have already halved from their recent peak). There is a similar dynamic in the freight industry: the impact of the closure of the Suez Canal earlier this year will be just as temporary as the Covid- and Brexit-induced limitation on cross channel freight at the end of last year. In aggregate, it is clear that there is still lots of spare capacity in the economy – i.e. room for demand to expand without coming up against constraint in supply. Unemployment is still comparatively high and the ratio of those out of work to vacancies does not indicate overheating in the labour market – which should keep a lid on wage growth.

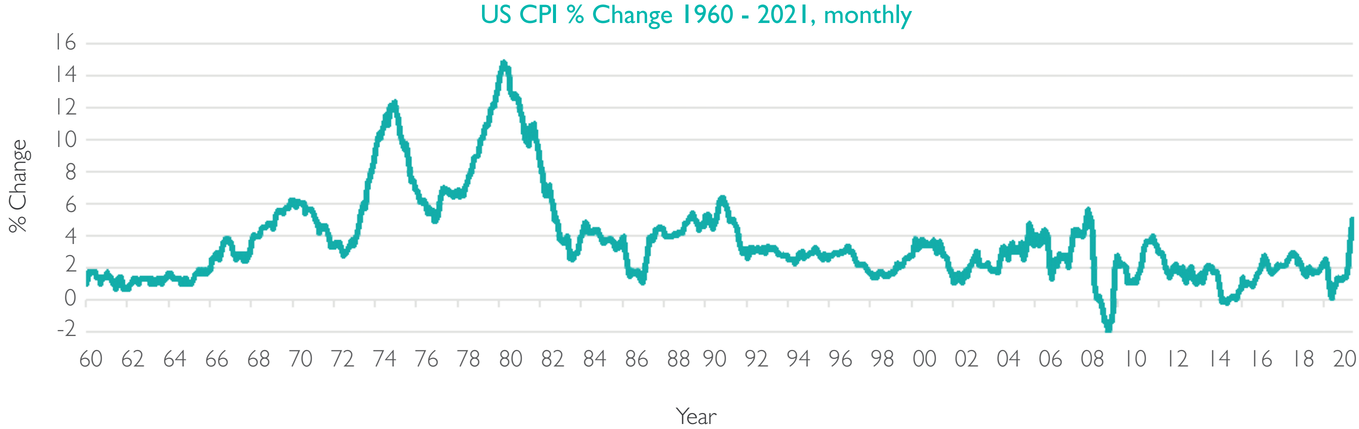
...but there are both inflationary and deflationary forces at play in the long term.

Looking at the long term, there is every reason to believe that the growth in technology will continue to bring productivity gains and remain a force for deflation (as ever more advanced chips enable more work to be accomplished in a shorter space of time). The 'working from home' phenomenon also adds to productivity by limiting commuting time and enhancing employee wellbeing such that more work is done outside office hours (as recently borne out by Waverton's own employee survey). China is said no longer to be an exporter of deflation now that it is a more advanced economy – but there are other potential sources of comparatively cheap labour, both in Asia and ultimately Africa. That said, there are long term influences which are likely to be inflationary: combating climate change is going to be expensive as, for instance, we replace gas boilers with expensive ground source heat pumps. The relentless march of regulation damages productivity and increases costs across the economy. The pandemic has brought about an increasing socialisation of Western economies whereby government expenditure is crowding out the private enterprise upon which price competitiveness depends; it has also curtailed the great deflationary force of globalisation.

Our portfolios are positioned for higher inflation ahead.

In summary, it is clear that inflation is picking up and we would not be surprised to see it proving to be less transitory and more uncomfortable than desired, especially if it gets into the wage growth figures – but we do not see a 1970's style price / wage spiral ahead yet. Our portfolios are positioned accordingly: largely in real assets with growing, if not explicitly CPI-linked revenues, and away from fixed interest. Moreover, where we are exposed to bonds, on the whole duration is kept short and good use is made of inflation swaps. Fixed interest markets are not pricing the risk that the current inflation spike proves to be much more pernicious than central bankers would wish.

US CPI % Change 1960 - 2021, monthly



Source: Bloomberg, Waverton
Data as at 31.05.21

Asset prices are held aloft by ultra-low interest rates.

The most important short term determinant for the outlook for equities is the path of interest rates. Inflation typically leads to rising interest rates, which is bad for all asset classes. At the moment, however, the authorities are determined to cap interest rates even though inflation is rising. Keeping real interest rates so dramatically negative is a conscious policy decision. Whilst it is unlikely to be sustainable in the long run, it feels difficult to bet against it right now even if one does believe inflation is going to be problematic. We have therefore not been inclined to reduce our equity weightings, but rather concentrate on making sure that we own enduring businesses which will be able to adapt to the extraordinary uncertainties ahead.

ESG considerations are an important component of our stock selection process.

One of the most important of Waverton's investment principles is the ability to maintain growth in free cash flow. This not only requires an expanding addressable market but also resilience in the underlying business model to ensure the return on capital consistently outperforms the cost of capital – which is a prerequisite for any good long term investment. The importance of this has come to the fore lately as our clients focus increasingly on ESG (Environmental, Social and Governance) matters. Generally we find that our portfolios come out well when they are benchmarked against stock market indices for their ESG credentials because companies which have a poor record on this front often fail our stock selection process on sustainability grounds following rigorous fundamental analysis. Our experience shows that relying solely on screening services or ready-made indices to manage ESG exposures can lead to unreliable outcomes. Tesla, for example, is No. 1 in the US Vegan Climate ETF thanks to its use of faux leather seats in its vehicles – despite the fact that this is derived from oil-based plastics; the company is also No. 2 in the Global ESG Leaders Index apparently without regard for its appetite for an appreciable percentage of the world's supply of metals and minerals – especially those which are difficult, expensive and controversial to mine like cobalt and lithium.

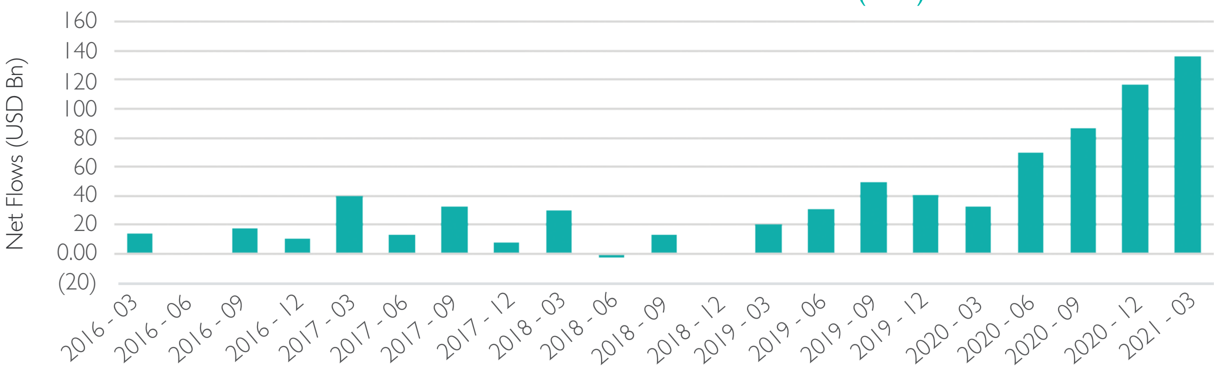
Index fund managers are trying to capitalise on this theme.

The existence of these specialist indices indicate that passive investment houses are trying to take advantage of the growing popularity of ESG investment: approximately 30% of first quarter European flows into sustainable funds went into index funds of one sort or another. These rely on a 'broad brush' and largely mechanistic approach to the way they classify companies' inclusion in the relevant indices, and the input data is largely historic. There are a number of problems with this: firstly, fund flows are apt to push the largest index constituents to extraordinarily high valuations and uncomfortable levels of volatility (Tesla fell over a third in value in a few weeks earlier this year); secondly, the underlying environmental, social and governmental merits of the indices' constituents is highly subjective and in many cases may not correspond closely with the end investors' own ideas of virtue. Finally, there is the question of forward-looking returns. If the popularity of the 'ESG leaders' results in higher than warranted valuations – i.e. very low cash flow yields or price-to-book values that are unjustified by underlying growth rates – the returns which will be achieved as the investee companies reach maturity will be disappointingly low (which is essentially what happened in the years after the dot-com boom in 1999-2000). Our approach therefore focusses as much on improvements or deterioration of ESG considerations as much as it does on the absolute level of compliance with the criteria. For example, Royal Dutch Shell looks poor on a headline basis given the proportion of its cash flow which is derived from oil extraction and refining; however, its leading position in gas means it has an important role in displacing dirty coal and oil; also, the company has growing investments in renewable energy, electric vehicle chargers, carbon capture and hydrogen; and management incentives are aligned with the company's 'net zero' targets. Another example is Avery Dennison, whose official ESG risk rating does not, we believe, reflect the company's numerous efforts to reduce its environmental impact (e.g. a 30% fall in greenhouse gas emissions since 2015).

The substance of ESG research is much more important than getting the 'buzz words' right.

We are strongly of the view that an integrated approach to ESG research is the way forward both in terms of adding value to portfolios and in explaining credibly to clients what their ESG profiles really are. For Waverton, consideration of environmental, social and governance issues is neither a marketing gimmick nor a 'chore' – rather it goes to the heart of what we already do. The developing fashion for the ESG acronym merely enables us to showcase the work we undertake on a subject which is of profound interest to both Waverton and our clients.

Worldwide Investors – Sustainable Fund Flows (USD)



Source: Morningstar
Data as at 31.03.21

Portfolio Commentary

A very impressive quarter for risk assets led to some strong gains across all strategies. Absolute returns of between 3.6% and 6.1% were posted over the quarter, taking the 1 year returns to between 0.0% and 3.2%.

Markets seem to be digesting central bank liquidity injections and debating the effect of fiscal policy largesse, emanating principally from the US. The narrative around inflation in Q2 has been strong, with many market participants highlighting the risks of such an event. Strong vaccination rates combined with continued opening up in most regions has led global leading indicators and PMIs northwards.

The June FOMC meeting delivered a more hawkish tone than markets had anticipated, reinforcing the rally seen in Government bond markets earlier in the quarter. We see the risk of higher yields during the rest of the year given that inflation data is likely to remain elevated during this period.

The MSCI ACWI Index (covering major developed and emerging markets) rose +7.5% in sterling terms. This increase meant the ACWI has actually risen nearly 17% in sterling terms since the peak prior to the pandemic in February 2020 and is up nearly 60% since March 2020 lows, despite the global disruption.

Most major country markets rose during the quarter, with the exception of Japan. However, dispersion in returns was more a result of sector rotation; there was a move back to patterns we have observed in much of the last five years, with early growth companies such as those in technology tending to outperform (IT sector up over 10%). This led to a strong performance from the Morgan Stanley US Advantage Fund, up around 13% and the Blackrock European Fund, up around +15%.

Within alternatives, property was the strongest performing sector as it continues to recover from the 2020 lows. Companies in aggregate are reporting strong results indicating the positive underlying fundamental picture.

The macro data is still consistent with a robust economic recovery, however, it is no longer incrementally more positive. Risk assets have continued to rally in recent months; although, recent price action across markets looks like investors are questioning the strong recovery narrative. We remain slightly overweight equities but will look to reduce if we see signs that markets may be entering a difficult period.

As at 30th June 2021.

Portfolio Performance

Performance to 30th June 2021

Model	Q2 21	1 Year	3 Years	12m to Jun 20	12m to Jun 19	Since Inception*
Active Growth | 5	6.1%	21.0%	31.1%	3.2%	5.0%	117.6%
CPI+5%	3.0%	7.6%	21.8%	5.7%	7.1%	76.8%

Model	Q2 21	1 Year	3 Years	12m to Jun 20	12m to Jun 19	Since Inception*
Active Growth | 4	5.6%	18.3%	27.6%	2.7%	5.0%	101.7%
CPI+4%	2.7%	6.6%	18.4%	4.7%	6.1%	62.6%

Model	Q2 21	1 Year	3 Years	12m to Jun 20	12m to Jun 19	Since Inception*
Active Growth | 3	4.7%	15.2%	23.0%	1.8%	4.9%	80.2%
CPI+3%	2.5%	5.6%	15.0%	3.7%	5.0%	49.4%

Model	Q2 21	1 Year	3 Years	12m to Jun 20	12m to Jun 19	Since Inception*
Active Growth | 2	3.8%	12.4%	19.1%	1.0%	4.9%	61.1%
CPI+2%	2.2%	4.5%	11.6%	2.7%	4.0%	37.2%

Model	Q2 21	1 Year	3 Years	12m to Jun 20	12m to Jun 19	Since Inception*
Active Income | 2	3.6%	11.1%	19.3%	0.0%	7.4%	78.6%
CPI+2%	2.2%	4.5%	11.6%	2.7%	4.0%	37.2%

*Inception date: 30.09.2012
Source: Waverton, Morningstar.

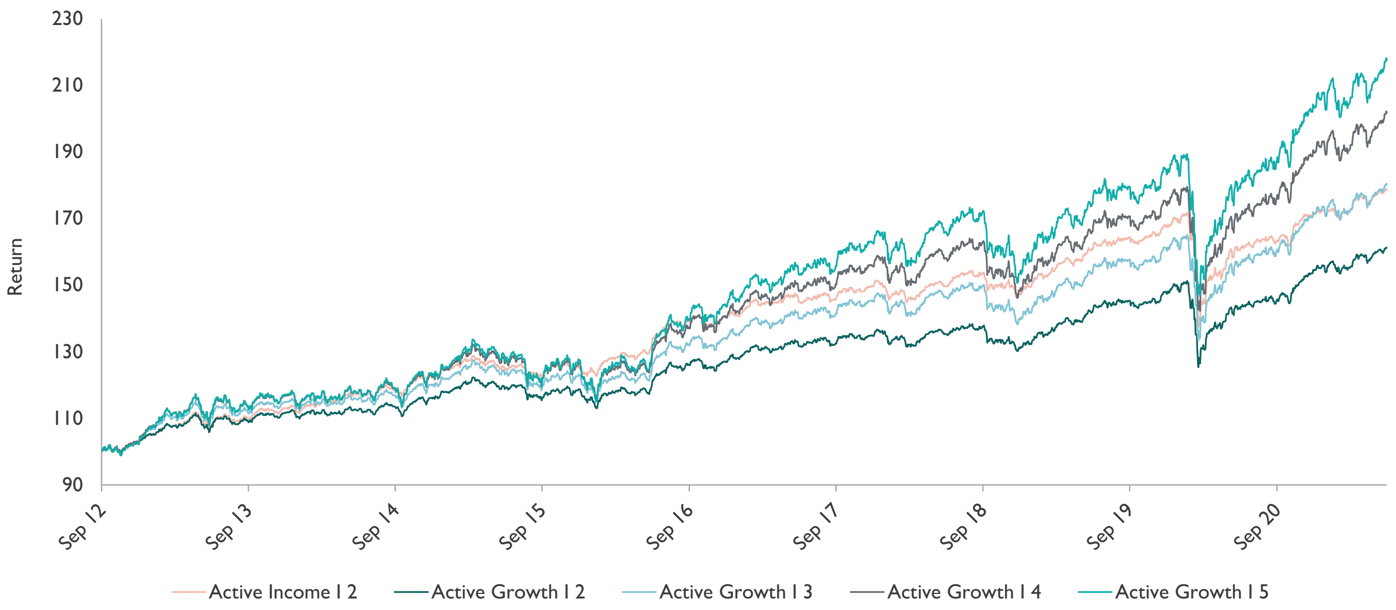
These performance figures are based on the performance of the Cornerstone ACTIVE Growth portfolios available through the Ascentric Platform. Performance is taken from internally derived Waverton figures. It is based on the underlying holdings for each portfolio and takes into account any asset allocation changes made during the period. Performance is gross of Waverton fees.

The performance does not allow for the management fee charged by Waverton or platform charges. Deduction of these fees will impact on the performance shown.

Performance Summary

Performance one year to 30th June 2021

Performance since inception to 30th June 2021



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Risk Warning: The figures are for illustration purposes only. Past performance is no guarantee of future results and the value of such investments and the income from them may fall as well as rise. Investors may not get back their initial investment. Capital security is not guaranteed.

Portfolio Holdings

Fund Name	Portfolio				
	Cornerstone Active Growth | 5	Cornerstone Active Growth | 4	Cornerstone Active Growth | 3	Cornerstone Active Growth | 2	Cornerstone Active Income | 2
Fixed Income	**8.9%**	**15.2%**	**24.1%**	**28.7%**	**46.3%**
MI TwentyFour Dynamic Bond	1.4%	2.7%	4.2%	5.0%	8.5%
M&G Global Floating Rate High Yield Fund	1.3%	2.5%	3.9%	4.6%	3.9%
Henderson Strat Bond	1.4%	2.6%	4.2%	5.0%	7.1%
iShare UK Gilt	1.8%	3.0%	5.1%	6.1%	8.6%
Threadneedle Credit Opportunities Fund	3.0%	4.4%	4.2%	5.0%	3.7%
Legal & General Global Inflation Linked Bond Index Fund	0.0%	0.0%	2.5%	3.0%	3.9%
Hermes Multi-Strategy Credit F GBP Inc H	0.0%	0.0%	0.0%	0.0%	6.6%
TwentyFour Income Ord	0.0%	0.0%	0.0%	0.0%	4.0%
Equities	**77.8%**	**63.9%**	**44.2%**	**28.8%**	**30.1%**
Chelverton UK	5.1%	4.3%	3.3%	2.3%	0.0%
Evenlode	4.9%	3.4%	1.9%	1.3%	2.9%
MI Chelverton UK Equity Income B Inc	0.0%	0.0%	0.0%	0.0%	1.5%
BlackRock Continental European	5.5%	4.7%	3.0%	0.0%	0.0%
Crux Special Sits	4.9%	4.2%	3.2%	3.3%	4.7%
T Rowe Price US Small Cap	9.9%	7.2%	5.2%	3.9%	0.0%
iShares S&P 500	14.8%	13.4%	9.3%	6.1%	12.2%
Morgan Stanley US Advantage Fund	7.9%	6.4%	4.7%	2.3%	0.0%
Lindsell Train Japan	3.4%	2.4%	1.6%	1.8%	0.0%
Nikkei 400 Tracker	3.8%	2.8%	1.8%	1.0%	1.6%
Schroder Oriental Income Ord Shares	0.0%	0.0%	0.0%	0.0%	2.1%
Veritas Asian Fund	6.4%	5.6%	3.7%	2.3%	0.0%
Somerset EM Dividend Growth Fund	0.0%	0.0%	0.0%	0.0%	0.0%
RWC Global Emerging Markets	3.4%	2.8%	2.2%	1.5%	0.9%
Guinness Global Equity Income Fund	2.7%	2.3%	1.7%	1.2%	2.6%
Fundsmith Global Equity	0.0%	0.0%	0.0%	0.0%	1.6%
Sanlam Artificial Intelligence Fun	5.1%	4.4%	2.6%	1.8%	0.0%
Alternative Investments	**8.6%**	**15.3%**	**26.0%**	**37.2%**	**17.1%**
Waverton Alternatives Fund	0.0%	0.0%	0.0%	0.0%	0.0%
JPM Global Macro Opportunities Fund C Inc	0.0%	1.9%	5.2%	8.0%	2.9%
BMO Property Growth & Income I Inc	0.9%	1.6%	3.5%	6.8%	3.7%
Schroder UK Dynamic Absolute Return P2 GBP	0.0%	1.8%	5.1%	7.9%	0.0%
MontLake DUNN WMA Institutional UCITS	0.9%	1.6%	3.6%	7.0%	0.0%
Invesco Physical Markets Plc Secured Gold	2.0%	2.4%	2.5%	2.2%	0.0%
Starwood European Real Estate Finance Limited	1.6%	2.0%	2.0%	1.8%	3.5%
GCP Student Acc	1.6%	2.0%	2.1%	1.8%	3.5%
3I Infrastructure Plc Ord Shares	1.6%	2.0%	2.0%	1.7%	3.5%
Cash	**4.7%**	**5.6%**	**5.7%**	**5.3%**	**6.5%**
GBP	4.7%	5.6%	5.7%	5.3%	6.5%

As at 30.06.2021. Risk warning: The above is for example purposes only and should not be considered a solicitation to buy or an offer to sell the above fund. Source: Waverton.

Mandates and Risk Category

Mandate	Long Term Investment Objective	Benchmark			Risk Category ‡	Indicative Volatility of Returns*
		Equity	Bonds	Cash		
Cornerstone Active Growth | 5	CPI+5%	80	20	0	High	7 - 18
Cornerstone Active Growth | 4	CPI+4%	65	35	0	High / Medium	5 - 11
Cornerstone Active Growth | 3	CPI+3%	50	50	0	Medium	4 - 10
Cornerstone Active Growth | 2	CPI+2%	30	70	0	Low / Medium	3 - 8
Cornerstone Active Income | 2	CPI+2%	30	70	0	Low / Medium	3 - 8

*Historic volatility of returns are based on returns since January 1986. bands reflect the potential range of volatility as a result of asset allocation changes within the indicated limits. For example, the lower end of the Growth volatility band reflects the fact that there is flexibility to reduce Equity exposure to as low as 55% in exceptional circumstances in favour of Bonds and Cash.

‡The definition 'High', 'Medium' and 'Low' risk refer to the relative risks on the scale of mandates we offer, with volatility being the primary determinant. The extremes on our scale of low to high do not correspond with the extremes of low and high risk in terms of all possible investment strategies.

Risk Description	Explanation
High	The possibility of periods of significant loss whilst making a higher level of longer term returns
Medium	The possibility of periods of material loss whilst making a medium level of longer term returns
Low	The possibility of periods of modest loss whilst making a lower level of longer term returns

Index Benchmark - Indices

Weighted according to mandate type	
Fixed Income	FTSE All Stocks Government Gilt Index
Equities	FTSE All World Index
Cash	GBP LIBOR 1 Month

The above is for example purposes only and should not be considered a solicitation to buy or an offer to sell a security.

Source: Waverton

About Waverton

Waverton is an independent investment management house dedicated to providing high quality investment outcomes through bespoke discretionary portfolios and a platform based portfolio service. We are single minded in our approach - dovetailing with the financial and tax planning advice provided by financial planners.

Founded in 1986, the headcount of the firm today stands at over 150 members of staff, of which a quarter are portfolio managers with responsibility for over £7.6bn of assets (as at 30th June 2021).

Multi-Asset Team

John Bellamy
Director, Portfolio Manager
39 Years Investment Experience

Tomislav Satchell
Director & Portfolio Manager
35 Years Investment Experience

Jim Mackie
Portfolio Manager
24 Years Investment Experience

Jeff Keen
Director - Fund Manager
37 Years Industry Experience

James Mee
Fund Manager
9 Years Industry Experience

Luke Hyde-Smith
Head of Fund Selection
17 Years Industry Experience

Benjamin Jenkins
Senior Analyst
18 Years Industry Experience

James Carter
Portfolio Manager, Fixed Income
5 Years Industry Experience

William Dinning
Chief Investment Officer
36 Years Industry Experience

Matthew Parkinson
Assistant Fund Manager
6 Years Industry Experience

Paris Jordan
Multi-Asset Analyst
10 Years Industry Experience

Lewis Sutherland
Fixed Income Analyst
9 Years Industry Experience

Risk Warnings

Past performance is no guarantee of future results and the value of such investments and their strategies may fall as well as rise. Your client may not get back your initial investment. Capital security is not guaranteed.

The opinions expressed are based on current market conditions and are subject to change. The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon.

The portfolio may invest in assets which are not readily realisable or where there is counterparty risk. Changes in rates of exchange may have an adverse effect on the value, price or income of an investment.

The information contained within this document relating to 'yield' is for indicative purposes only. Advisers should note that yields on investments may fall or rise dependent on the performance of the underlying investment and more specifically the performance of the financial markets. As such, no warranty can be given that the expressed yields will consistently attain such levels over any given period.

There is no guarantee of a return on Absolute Return Funds held. The returns for structured products may fluctuate according to different market conditions; your client may get back less than they originally invested.

Further Information

Waverton Investment Management Limited has been appointed by Cornerstone to manage the Active Growth MAPs under the terms of a delegation agreement. Your professional adviser is not responsible for decisions as to which securities and other investment products should be purchased and sold in order to replicate the model portfolio.

Where Waverton's advice is given it is restricted to discretionary investment management services. We do not provide advice on the use of tax or financial planning products (even if the service which we are managing is held within such a product) or non-discretionary investment.

This material is for your private information and should not be distributed further.

All materials have been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.

If you require any further information in respect of the information included in this report please address all enquiries to:

Mark Barrington, Waverton Investment Management Limited, 16 Babmaes Street, London, SW1Y 6AH
mbarrington@waverton.co.uk
T: 020 7484 2058

Copies of the each Fund's Prospectus and Key Investor Information Documents (KIID) are available from Waverton and the administrator:
Waverton Sterling Bond Fund, Waverton Alternatives Fund, Waverton Tactical Equity Fund and Waverton Global Core Equity Fund
c/o RBC Investor & Treasury Services Ireland Limited
Georges Quay House
43 Townsend Street
Dublin 2