For professional advisers only

Date:
30th September 2020 -
30th December 2020

Cornerstone Asset Management Investment Report

WAVERTON
INVESTMENT MANAGEMENT

Contents

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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 fourth quarter of 2020.

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

December 2020

THE LAST QUARTER...

- Shares close at record highs, led by Emerging Markets (up 13.2% in sterling terms) and the UK (up 12.4%). In November, the FTSE 100 index has its best month since May 1990.
- The Nikkei 225 index charges through the 26,000 level for the first time since 1991.
- Tesla joins the S&P500 index.
- The flotation of Ant Group onto the Shanghai and Hong Kong stock exchanges (expected to be the world's largest IPO) is halted at the eleventh hour by the Chinese government.
- Marks & Spencer records its first loss since becoming a public company in 1926.
- Peru issues a 100-year bond at 3.2%.
- Yields on Spanish 10-year bond yields fall to zero; Italian bond yields are negative out to 5 years.
- Sterling is strong as investors anticipate a UK-EU trade deal; the US dollar is weak following the US presidential election.

> "Maybe it would be unduly provocative to say that this is a cake-ist treaty; but it is certainly from the patisserie department"
>
> **Boris Johnson,** *Daily Telegraph,* 1st January 2021.

Outlook for Interest Rates / Bonds

Monetary stimulus continues unabated.

The last nine months have seen extraordinary fiscal and monetary stimulus around the world in response to the pandemic. We were almost becoming blasé about the numbers – until Mr. Biden won the US presidential election and then in early January the Democrats took control of the Senate, whereupon we again gasped in awe at the scale of what is being proposed. Including all the most recent announcements, which could amount to a further $4trn in aggregate, our analysis suggests that the US Federal budget deficit in 2021 could be 25%, or even 30% of GDP, compared with c.15% in 2020. These numbers compare with deficits of 11% of GDP in the depths of the global financial crisis of 2008-09, and 27% in 1943 at the height of the Second World War. As we pointed out in the July and October issues of *Market Perspectives,* all this government spending has only been made possible with the cooperation of the major central banks which have bought up much of the government debt being issued to finance the deficits.

Inflation is an easy short-term 'fix' for politicians...

We continue to believe that this is fundamentally inflationary: the whole point of the exercise is to boost nominal GDP, of which the general level of prices is a major component. Whilst in the short term this government spending is only replacing what the private sector has lost to the pandemic, that will soon return as consumers' lockdown savings and companies' 'bounce back' loans are spent. Unless government spending falls back as quickly as it arose and the productive output of the economy outpaces the rise in nominal GDP that has been fuelled by this extra spending, prices will rise. The questions are: 1) will the deflationary impact of the pandemic be behind us by mid-2021, or will it take longer than that? And 2) will governments and central banks be sufficiently disciplined to tighten policy quickly enough to keep inflation down to a manageable level during the recovery? The answer to the first question remains to be seen in the effectiveness of the vaccines against a mutating virus, and the speed at which doses can be rolled out. The answer to the second question is almost certainly 'no' as far as the US and the UK are concerned: a Democratic 'clean sweep' in the US is going to be in no mood to turn off the taps when it only got started in January 2021; and the Johnson administration in the UK clearly thinks it has found the 'magic money tree' which a few years ago Theresa May cautioned did not exist. Moreover, politicians across the spectrum lose no opportunity of pointing out what a mistake the 'austerity' which followed the expenditure of the 2008-09 crash was – even if many commentators are not convinced it was an error (or indeed that the degree of belt-tightening really constituted austerity at all given the continued accumulation of government debt throughout that period).

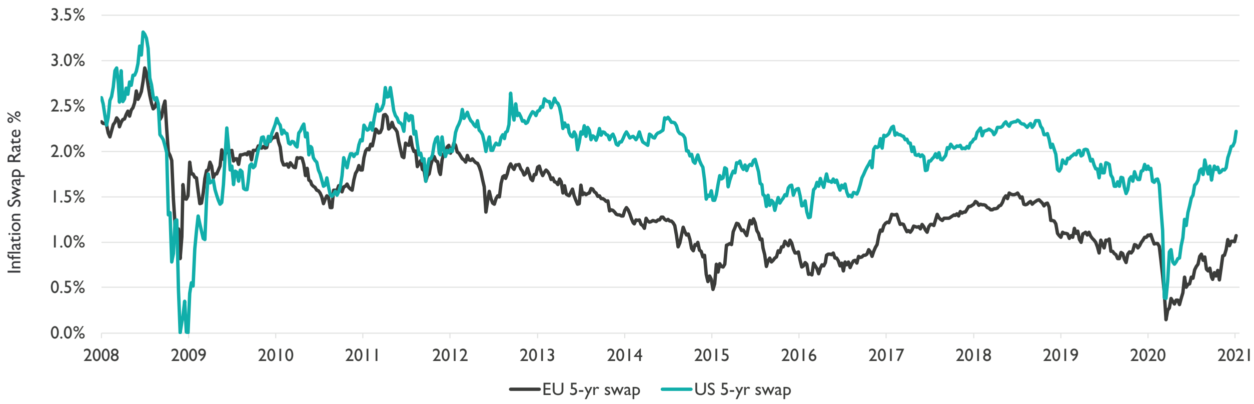
...and markets are responding to this risk.

Markets are beginning to build in expectation of rising inflation. While short-term bond yields remain ultra-low given central banks' hold on overnight rates, long yields are creeping up in spite of the authorities' attempts to keep them down. Commodities, chiefly in the form of metals and oil prices, are also heading upwards. The purest indication that inflation expectations are rising are the tradeable inflation swaps we mentioned in October; the US 5-year swap has seen another leg up since the Democrats' success in Georgia. While the ongoing pandemic and its associated unemployment, excess saving and corporate insolvencies mean there is little immediate prospect of rising consumer prices, the pressures will build quickly as economic recovery takes hold.

A falling US dollar adds grist to the mill.

Another consequence of expanding liquidity in the US has been a weak dollar. The currency peaked last March as investors looked to the greenback as a safe haven, since when it has declined against other currencies as equity markets have recovered. A falling US dollar tends to coincide with rising commodities prices, accelerating global economic growth and buoyant emerging markets – all of which are indicative of inflation and rising bond yields.

5-Year Inflation Swap Rates



Source: Bloomberg
Data as at 04.01.21

Outlook for Equities

As real assets, equities should offer some protection from inflation...

With the outlook for fixed interest investments decidedly poor and inflation likely to erode the purchasing power of cash, real assets producing cash flows that are linked to inflation must be the investment of choice over the next few years. The problem is that equity indices are at all-time highs in spite of sharply reduced profits, and the property market is plagued by falling rents and obsolescence (particularly in the retail sector, and potentially in offices, as internet shopping and working from home take over people's lives). While the cash flows from these inflation-linked revenue streams should be boosted as economic recovery takes hold and the general level of prices rises, the valuation of these cash flows will come under pressure as bond yields increase – and that is not a comforting thought when the price / earnings ratio of the world's stock markets is already at a 20-year high and US market capitalisation to GDP is at an all-time record. Moreover, high growth companies (for example those which have benefited from the pandemic like the technology and healthcare sectors) make up a large proportion of the US and the world index, and are more vulnerable to the detrimental valuation effect of rising bond yields than lower rated sectors.

...and there are other real assets which do not generate cash to consider.

Real assets which do not produce an inflation-linked cashflow might also be attractive inflation hedges. Examples include precious metals, works of art and, arguably, cryptocurrencies. Certainly, the first two are, in the long run, known to hold their value in real terms, and at the moment the opportunity cost of holding gold or impressionist paintings is virtually zero given that there is no income on cash in the bank. No surprise, therefore, that gold reached an all-time high last year and that online art sales boomed even while the auction houses were closed. "Buyer's remorse" is well known in the art world and it must have been particularly prevalent in 2020 when it was so easy to sit at home on one's computer using a recent government hand-out to bid merrily for paintings one had no opportunity of viewing in person. The pandemic has caused the rich as a class to get richer and this, together with zero or even negative interest rates and widespread uncertainty about the future, is the perfect recipe for speculation on a grand scale. It is telling when the sharpest price appreciation is seen in those things which are unproven stores of value: Bitcoin has recently doubled in a month and plenty of SPACs ("special purpose acquisition companies") have appeared on a very thin premise – rather like the company which floated at the time of the South Sea bubble whose advertising allegedly said it was "for carrying out an undertaking of great advantage, but nobody to know what it is."

Electric vehicle investments have attracted a lot of 'hot' money.

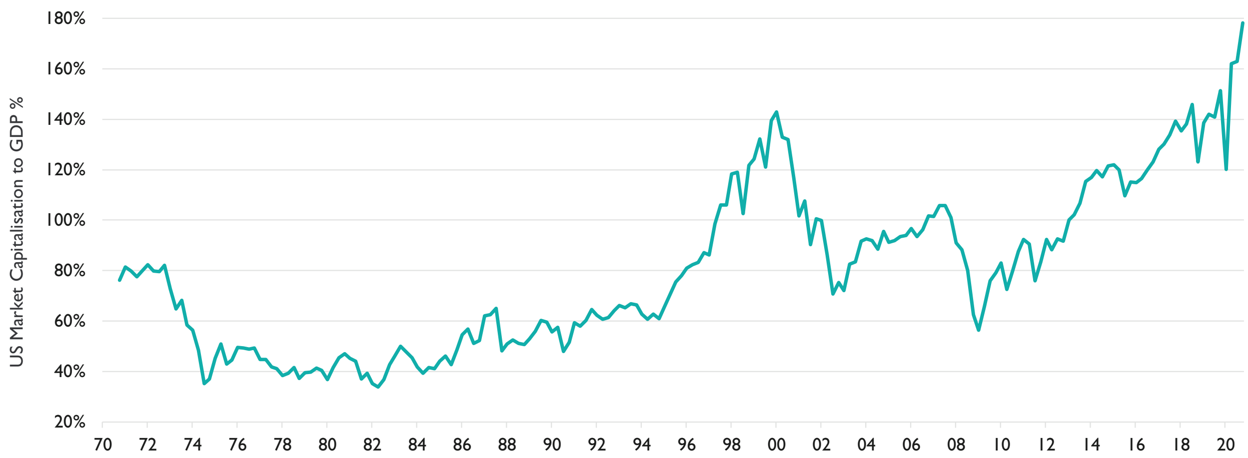
Tesla has doubled in value in less than two months (egged on by index funds) despite it already being the most valuable car company in the world. The electric vehicle (EV) market in general increasingly looks like a mania: the market value of Tesla and the three main Chinese EV stocks are between them well over $1trn – more than twice the value of the top 200 'dot com' stocks in the 1999 bubble. The three Chinese EV manufacturers collectively lost $2bn last year, but are worth more than Volkswagen (which itself will soon be producing 1.5m EVs in China and 3m globally). As far as Tesla is concerned, considering that the major motor vehicle manufacturers in aggregate spend over 50 times as much as Tesla on research and development, it seems impossible to believe that the Californian company will retain its apparent monopoly on technological leadership as the industry matures – especially as Apple also is investing in electric cars. Of course, EVs are the future (or are they? Hydrogen may come to the fore….), but so was Amazon in 1999 – however, backing it at the end of that year resulted in a loss of over 90% during the ensuing two years, and it was ten years before the share price regained its high.

Zero interest rates and the desire for inflation protection is a recipe for speculation.

In summary, while equity indices are looking expensive, the asset class' long term attractions look as secure as ever in the era of money printing and negative bond yields. The problem is that basic truth combined with the fact that there is zero opportunity cost to holding a real asset is a recipe for speculative excess. Broadening our portfolios' exposures away from excessive concentration on high growth areas undoubtedly means we will miss out on some 'hot' trades, but we are confident that, when the music stops, 'buyer's remorse' is not going to be restricted to the art world.

Algernon Percy

US Market Capitalisation to GDP % *
Quarterly Q4 1970 – Q4 2020



Source: New York Federal Reserve, Bloomberg, Waverton
*Calculated using Wilshire 5000 Index divided into Nominal GDP. Q4 2020 GDP estimated.
Data as at 01.01.21

Portfolio Commentary

The final quarter of 2020 saw the US Election result, the arrival of the vaccines and an agreed deal for the final departure of the UK from the European Union. The vaccine news in particular was celebrated, justifiably, by markets which resulted in another positive quarter for returns. The portfolios rose by between 5.1% and 8.6% in the fourth quarter which pushed the gains for the year to between 2.5%, for Income and 10.9% for MAP 5.

Equity markets remain buoyant as the market seems to expect that a robust economic rebound will translate into earnings and further strength in risk-assets. We are more nuanced in our outlook and believe the balance of risk leaves a neutral equity position to equities most appropriate at this time. Fundamental to this is our concern over the direction of travel for interest rates and inflation where we are already seeing evidence that the market expects both to rise. This would be negative to bonds prices in the short term and increase risks in the equity markets over the medium term, hence our caution.

The equity funds generally performed well over Q4 and the year as a whole, despite the difficult first quarter. Geographic allocation was a bit of a headwind as we were underweight the US market, relative to the MSCI AC World Index. The US Market was driven by a handful of tech giants again although we did see more value orientated companies catching up a little in Q4. Some stand out funds, in absolute terms over the year were the Smith & Williamson Artificial Intelligence Fund which increased over 50% whilst the T. Rowe Price US Smaller Companies Fund increased by almost 26%. In contrast, the UK equity funds have had a very difficult year as the UK market has been avoided whilst the Brexit negotiations have been on-going. This all changed in the last quarter, initially spurred on the news of the vaccine being successful and as the Brexit negotiations moved towards a deal. This led the UK market to being one of the best performers and funds such as Chelverton UK Equity Growth increased by over 20%.

Our alternative funds had a mixed final quarter and year. The property names were hit particularly hard during the sell off in March but made good progress in the last quarter. JPM Global Macro Opportunities Fund performed well, increasing by nearly 14% over the year whilst Gold also contributed positively.

As 2021 opens the Covid-19 situation continues to worsen, but the end of the pandemic is still in sight with several viable vaccines now being administered worldwide. Concerns remain regarding aggregate stock market valuations on a standalone basis, but we suspect valuation can stretch further given policy backdrop. Political events in North America makes even more fiscal spending likely strengthening the belief of our Asset Allocation Committee that inflation risks are rising over the medium term. As ever, we are positioned to participate well should markets continue to push on but are aware of the growing risks and will take action if required.

As at 31st December 2020.

Portfolio Performance

Performance to 31st December 2020

Model	Q4 20	1 Year	3 Years	12m to Dec 19	12m to Dec 18	Since Inception*
Active Growth | 5	8.6%	10.9%	25.0%	19.4%	-5.6%	103.2%
CPI+5%	1.3%	5.7%	20.5%	6.4%	7.2%	69.3%

Model	Q4 20	1 Year	3 Years	12m to Dec 19	12m to Dec 18	Since Inception*
Active Growth | 4	7.7%	9.1%	21.9%	17.2%	-4.7%	89.7%
CPI+4%	1.1%	4.7%	17.1%	5.4%	6.2%	56.4%

Model	Q4 20	1 Year	3 Years	12m to Dec 19	12m to Dec 18	Since Inception*
Active Growth | 3	7.0%	6.8%	18.0%	14.8%	-3.8%	71.3%
CPI+3%	0.8%	3.7%	13.8%	4.4%	5.2%	44.4%

Model	Q4 20	1 Year	3 Years	12m to Dec 19	12m to Dec 18	Since Inception*
Active Growth | 2	6.2%	4.8%	14.5%	12.5%	-2.8%	54.4%
CPI+2%	0.6%	2.7%	10.5%	3.3%	4.2%	33.3%

Model	Q4 20	1 Year	3 Years	12m to Dec 19	12m to Dec 18	Since Inception*
Active Income | 2	5.1%	2.5%	14.7%	13.6%	-1.6%	71.6%
CPI+2%	0.6%	2.7%	10.5%	3.3%	4.2%	33.3%

*Inception date: 30.09.2012
Source: Waverton, Morningstar.

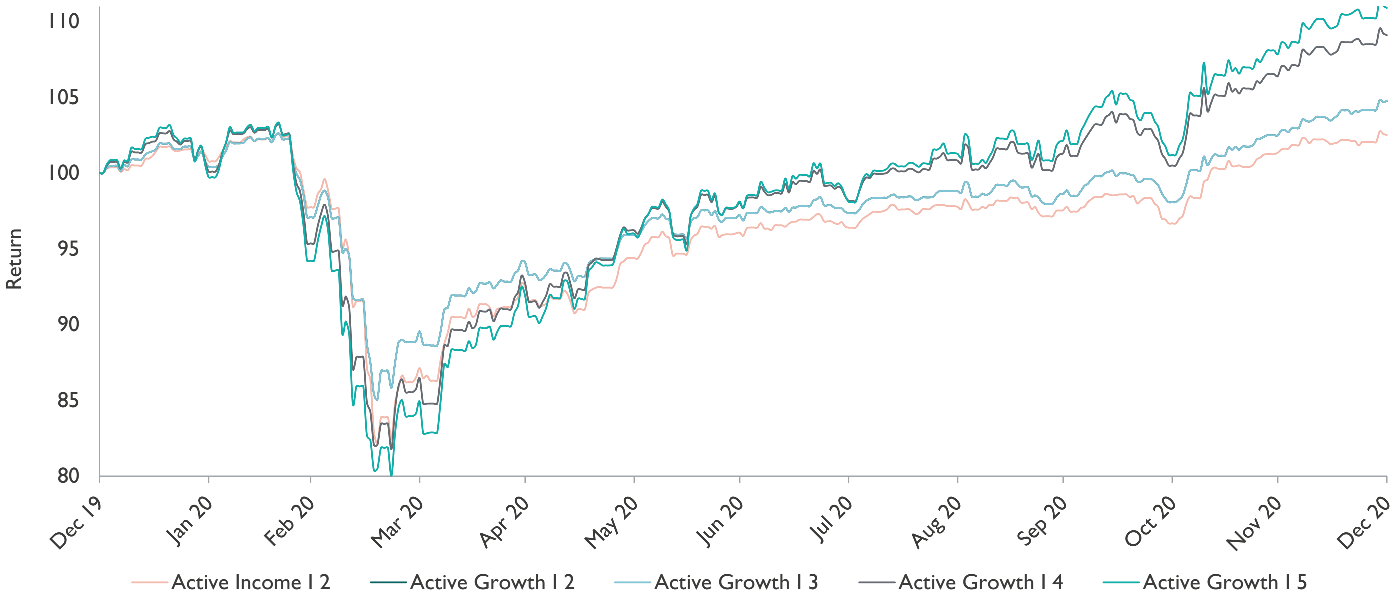
These performance figures are based on the performance of the Cornerstone ACTIVE Growth portfolios available through the Ascentric Platform. Performance is taken from internally derived Waverton figures. It is based on the underlying holdings for each portfolio and takes into account any asset allocation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

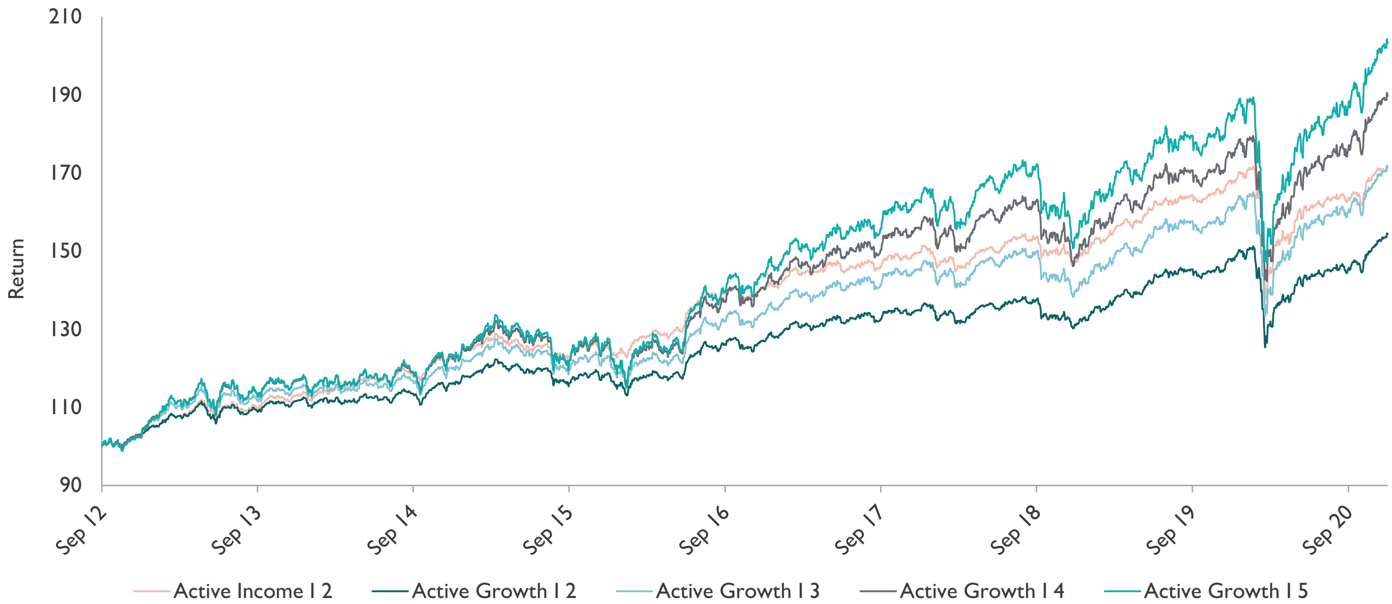
Risk Warning: The figures are for illustration purposes only. Past performance is no guarantee of future results and the value of such investments and the income from them may fall as well as rise. Investors may not get back their initial investment. Capital security is not guaranteed.

Performance Summary

Performance one year to 31st December 2020



Performance since inception to 31st December 2020



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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	**9.5%**	**16.1%**	**22.7%**	**26.9%**	**49.0%**
MI TwentyFour Dynamic Bond	1.5%	2.8%	4.3%	5.1%	8.8%
M&G Global Floating Rate High Yield Fund	1.3%	2.5%	4.0%	4.7%	4.0%
Henderson Strat Bond	1.5%	2.8%	4.4%	5.3%	9.0%
iShare UK Gilt	2.1%	3.3%	5.6%	6.7%	12.6%
Threadneedle Credit Opportunities Fund	3.2%	4.6%	4.4%	5.1%	3.8%
Hermes Multi-Strategy Credit F GBP Inc H	–	–	–	–	6.8%
TwentyFour Income Ord	–	–	–	–	4.1%
Equities	**74.7%**	**60.6%**	**44.4%**	**30.0%**	**26.6%**
Chelverton UK	4.6%	3.8%	2.9%	2.0%	-
Evenlode	2.9%	2.5%	1.9%	1.3%	1.4%
MI Chelverton UK Equity Income B Inc	–	–	–	–	1.4%
BlackRock Continental European	5.0%	4.2%	2.6%	-	-
Crux Special Sits	4.9%	4.1%	3.1%	3.2%	4.6%
T Rowe Price US Small Cap	9.9%	7.2%	5.2%	3.8%	
iShares S&P 500	13.9%	12.5%	10.1%	6.6%	11.3%
Morgan Stanley US Advantage Fund	7.5%	6.1%	4.4%	2.2%	-
Lindsell Train Japan	3.8%	2.6%	1.7%	1.9%	–
Nikkei 400 Tracker	4.1%	3.0%	1.9%	2.1%	1.7%
Schroder Oriental Income Ord Shares	-	-	-	-	2.2%
Veritas Asian Fund	7.8%	5.8%	3.9%	2.4%	-
Somerset Emerging Markets Dividend Growth Fund	–	–	–	–	1.0%
RWC Global Emerging Markets	3.6%	3.0%	2.3%	1.6%	-
Guinness Global Equity Income Fund	2.6%	2.2%	1.7%	1.2%	1.5%
Fundsmith Global Equity	–	–	–	–	1.6%
Smith & Williamson Artificial Intelligence Fund GBP Z Acc	4.1%	3.4%	2.6%	1.8%	-
Alternative Investments	**9.1%**	**15.8%**	**26.3%**	**36.9%**	**14.1%**
JPM Global Macro Opportunities Fund C Inc	-	1.9%	5.2%	8.1%	–
BMO Property Growth & Income I Inc	0.9%	1.5%	3.3%	6.3%	3.4%
Schroder UK Dynamic Absolute Return P2 GBP Acc	-	1.8%	5.0%	7.7%	–
MontLake DUNN WMA Institutional UCITS GBP Inst A Pooled Acc Hedged	1.0%	1.7%	3.7%	7.0%	–
Invesco Physical Markets Plc Secured Gold Lkd Nts 31/12/2100 P ETC	2.2%	2.7%	2.8%	2.4%	–
Starwood European Real Estate Finance Limited	1.6%	2.0%	2.1%	1.8%	3.5%
GCP Student Acc	1.6%	2.0%	2.1%	1.8%	3.5%
3I Infrastructure Plc Ord Shares	1.8%	2.2%	2.2%	1.9%	3.7%
Cash	**6.7%**	**7.5%**	**6.6%**	**6.1%**	**10.3%**
GBP	6.7%	7.5%	6.6%	6.1%	10.3%

As at 31.12.2020. 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 £6.9bn of assets (as at 31st December 2020).

Multi-Asset Team

John Bellamy
Director & Portfolio Manager
39 Years Investment Experience

Tomislav Satchell
Director & Portfolio Manager
36 Years Investment Experience

Jim Mackie
Portfolio Manager
24 Years Investment Experience

Jeff Keen
Director - Fund Manager
36 Years Industry Experience

James Mee
Fund Manager
8 Years Industry Experience

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

Benjamin Jenkins
Senior Analyst
17 Years Industry Experience

James Carter
Portfolio & Credit Analyst, Fixed Income
4 Years Industry Experience

William Dinning
Chief Investment Officer
36 Years Industry Experience

Matthew Parkinson
Multi-Asset Analyst
5 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.

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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