PILLING & CO
STOCKBROKERS LIMITED

October Newsletter

Discretionary Management

Enhanced Portfolio Reporting System

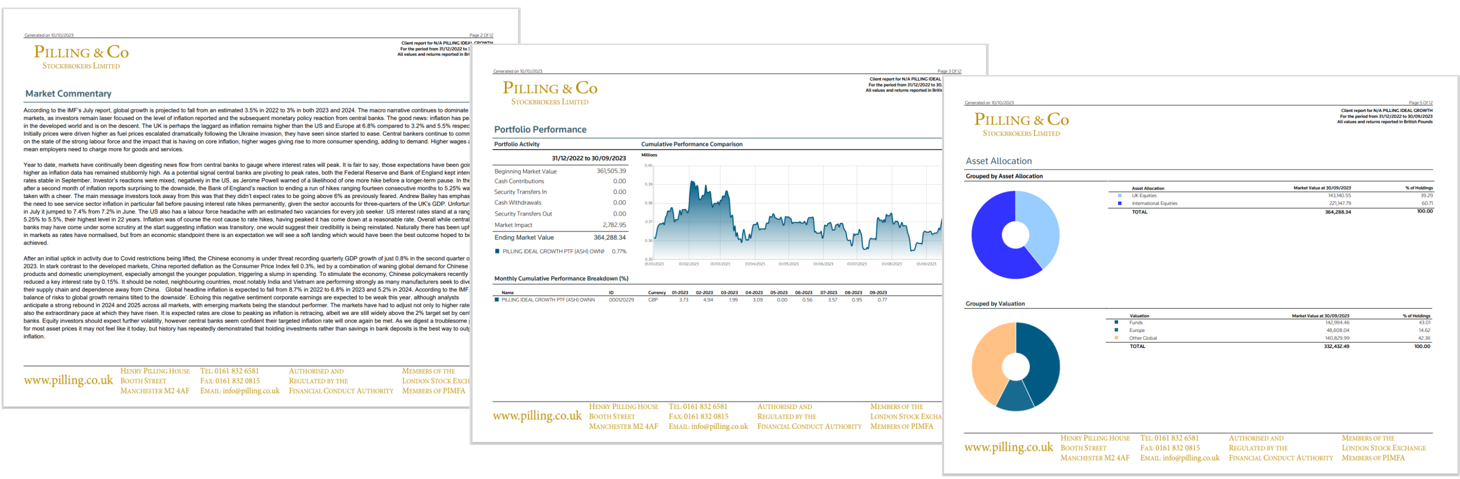
As part of our ongoing commitment to continually improve and enhance our client experience and offering, we have recently introduced a new format for the six-monthly portfolio management reports that our **Discretionary Managed** clients receive.

This ‘new style report’ will still incorporate some existing features, such as our market commentary section, but will now encompass an enhanced level of in-depth data, providing you with a far more detailed insight into your portfolio performance and holdings. This will be presented with a more data driven approach using tools such as easy to read tables and visuals including charts, rather than the current text heavy format.

The new reports covers our **Discretionary Managed, Discretionary AIM** and **Pilling Ideal Portfolio** services.

Although the report format is changing, the personalised service our clients expect from us will be unaffected and our Investment Team are always available to discuss any aspect of client portfolios.

We have included some examples of the new layout which our **Discretionary Managed** clients will be now receiving.



We are looking forward to using the new style of report and are confident that clients will see the many advantages and benefits of this new layout.

In 2024, we will also be upgrading our online portal (Client Web Access) for our **Discretionary Managed** services, which will also provide clients with more detail and information on their portfolio. Further information on the new CWA and release date will be announced in the new year.

If you are interested in one of our managed services then please do not hesitate to contact us at **investments@pilling.co.uk**

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Interesting times for Bond Funds

Terry Applegate

Chartered Wealth Manager

In our May newsletter, my colleague Alistair Hodgson highlighted both the yield and tax advantages of the UK gilt market. Although we have since seen further hikes in interest rates, the pause by the Bank of England in September has now increased market expectations that rates have now peaked.

This means that another investment type within the wider fixed interest market is now offering attractive yields, and that is corporate bonds.

Gilts involve lending money to the government in return for a fixed rate of interest, whereas corporate bonds are about lending to individual companies, who pay interest, and all being well the capital back on the defined redemption date.

Whereas gilts are classed as a low-risk investment due to the fact they are backed by the treasury, corporate bonds do carry varying degrees of risk, depending upon factors such as the size and quality of the issuer. Typically, bonds fall into two categories: investment grade (higher quality) and non-investment grade (lower quality). The yield offered by bonds will usually be higher for non-investment grade, as holders will require a higher yield in return for the increased risk taken.

There are a huge number of corporate bond funds in existence, but I have picked out a handful below that we currently favour. The main theme running through the funds is that they are looking to provide a good level of income, but at the same time trying to protect “if not grow” capital.

The **Twentyfour AM Dynamic Bond** fund is an actively managed fund, seeking a high level of income but also an element of capital growth. It holds a broad range of bonds and other fixed income assets such as US treasuries. The average investment rating is BBB+ and a yield of 7% is currently being offered.

Premier Miton Strategic Monthly Income has a mandate of investing at least 70% of the portfolio into fixed, variable and zero interest rate investments including bonds, but has a bias towards investment grade bonds. A yield of 5.6% is being paid to investors.

Man GLG Sterling Corporate Bond has at least 80% of its net assets invested in securities deemed investment grade. Investments are made into a range of securities including those issued by governments or supranational bodies and governments, money market instruments, financial derivatives and cash funds. Instruments issued by banks, real estate and insurance companies make up the largest weightings, with 95 positions in total currently held. An attractive yield of 7% is being offered.

Legal & General Strategic Bond invests in all types of bonds and related investments issued by both UK and overseas companies. Company bonds include those issued by Barclays, Volkswagen, Marks & Spencer and Westpac Banking. Risk is reduced via exposure to over 300 separate issuers , with the UK and US providing the highest country weightings. A yield of 5.6% is currently being paid out.

Fact sheets and Key investor information documents are available on request.

Discrete 12 month Performance (%)	Sep 23	Sep 22	Sep 21	Sep 20	Sep 19
Twentyfour Dynamic Bond TR	8.2	-18.7	8.0	3.2	5.6
Premier Miton Strategic Monthly Income TR*	4.2	-7.9	7.0		
Legal & General Strategic Bond TR	5.6	-10.0	10.1	7.3	5.1
IA Sterling Strategic Bond Sector TR	4.9	-15.9	3.8	4.0	7.3
Man GLG Sterling Corporate Bond TR**	22.3	-16.9			
IA Sterling Corporate Bond Sector TR	7.3	-21.0			

Source: FE Analytics
*fund launched on 14th September 2020
**fund launched on 1st September 2021

De Lisle American Fund

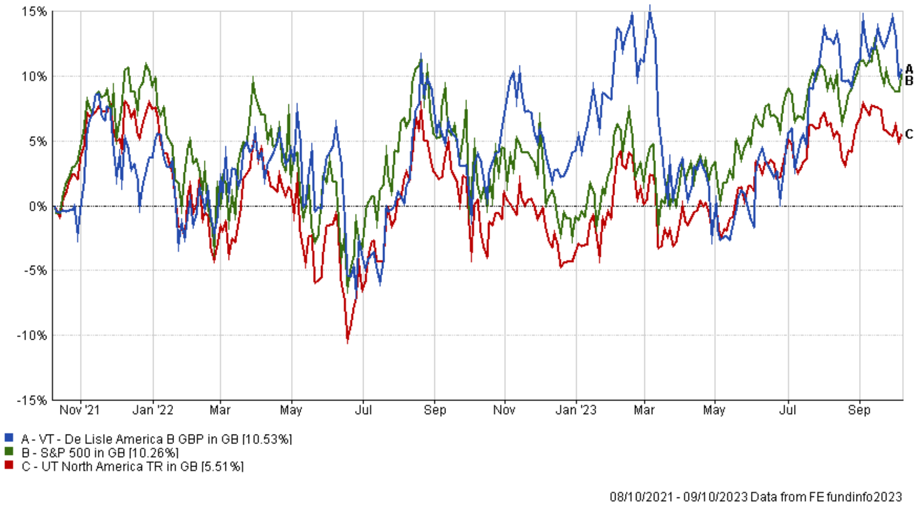
The S&P 500 has had a positive return so far this year, up over 10% to the end of September. Much of this return however has been driven by the technology stocks dubbed 'the magnificent seven' and includes the likes of Nvidia, Microsoft, Amazon and Meta Platforms (formerly Facebook). When looking at the fund peer group, many have a large exposure to this handful of stocks, with fund managers having to build large positions in this select group so that they can reduce the risk of underperforming their peers or the benchmark.

However, some of these companies are now trading on very expensive valuations and should sentiment change, or results disappoint, then there could be a rush for the exit and a correction in share prices. This scenario warrants investors to potentially look at other funds alongside their more mainstream North American names to reduce this stock risk.

The De Lisle America Fund has not been investing in these names and only has a 4% weighting towards the technology sector. Despite this lack of exposure, the fund has managed to keep pace with the S&P500 this year and has outperformed since its inception in August 2010.

The fund is managed by the group's founder Richard de Lisle and is focused exclusively on the US market and predominantly medium and smaller sized companies, as the manager feels that this area offers some of the best returns in world equity markets. The aim is to try and outperform the S&P 500 index, adopting a value-led approach and identifying those prospects that the wider market may have overlooked or ignored.

Although the current top ten holdings make up 25% of the fund's overall value, they do have 178 positions at present, with some having been held for well over a decade. As much as possible, the fund avoids investing in controversial sectors such as arms manufacture, coal and gambling.



In the words of De Lisle, the fund can be viewed as a good complement to any existing US funds that investors hold, especially if those are larger company biased.

Due to their value approach, De Lisle have looked towards other themes such as energy, financials, industrials, and consumer cyclical to find better options and stick to their value led investment principles.

The commodity sector is seen as one area that outperforms during high inflation, whilst energy should benefit from the long-term energy cycle, and a lack of investment in the previous downcycle means exploration stocks could outperform.

Top holdings within De Lisle American include Cameco, Build-A-Bear workshop, and Builders FirstSource.

A factsheet and key investor information document are available on request.

Discrete 12 month Performance (%)	Sep 23	Sep 22	Sep 21	Sep 20	Sep 19
De Lisle American Fund TR	13.8	0.3	58.8	-2.9	-5.7
IA North America Sector TR	7.1	-1.9	26.9	8.8	7.7
S&P 500 TR	9.4	0.5	22.8	7.7	8.1

Source: FE Analytics

Keeping your assets safe

Recent failures of firms that hold client money and assets and horror stories of client money 'black holes' running into tens of millions, evidence the importance of doing due diligence on any broking firm or platform you plan on putting money with.

Whilst some failures are due to fraud or regulatory issues, others are due to the firm's riskier activities, such as principal trading.

At Pilling, we never take on market or counterparty risks. Our policy not to take principal positions means that a market crash or the failure of a counterparty is unlikely to have any impact on our ability to conduct business in an honest and fully solvent manner as we have always done.

All of your assets are ring-fenced in our pooled nominee company or, where appropriate, in an account designated in your name. This means in the remote chance of our failure, your assets can be immediately identified as being client assets. Our total compliance with this, our golden rule, is rigorously audited by independent external auditors annually with any potential risk areas being reported directly to the FCA.

In addition, we maintain an insurance policy of £3m per claim to protect you from any losses that may arise from unforeseen circumstances. To sum up, our appetite for risk is very low. Our continuing policy is not to take on the risks of contingent liability business, providing credit facilities, conducting business outside of normal settlement periods, transacting in foreign currencies, providing banking facilities or taking principal positions. We assess the risks to our business annually and stress test areas such as the impact of varying levels of income reduction, to ensure we are always adequately capitalised to cover such events.

Any reputable firm should be happy to talk you through the controls they have in place to protect your assets. However, there are also independent sources you can use to assure yourself.

The FCA's register will help you to check a firm's regulatory status or their regulatory permissions. You can also check an individual's certified status – meaning that the firm has checked their background and is happy that they are honest, competent and capable.

FCA FINANCIAL CONDUCT AUTHORITY

https://register.fca.org.uk/s/

Companies House can help you to check a firm's solvency. A quick tip - any firm that has permission to hold client money and assets should have independently audited accounts. If you can't find these on Companies House this should be a red flag.

Companies House

https://www.gov.uk/get-information-about-a-company

Regulatory disclosures available on a firm's websites can also be useful. Recent regulations surrounding capital requirements, the Investment Firms Prudential Regulations – or IFPR, mean that an Investment firm holding client money and assets should make an IFPR disclosure available on their website. This document will give you a good insight into their core tier 1 capital (the most stable kind of capital a firm can hold) and their tolerance to risk.

If you hold assets with another provider and are concerned about these potential risks then please do not hesitate to contact us to discuss.