Quarterly Report

Third Quarter **2021**

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A letter to our investors

by Richard Flax
Chief Investment Officer at Moneyfarm

Dear investor,

After a strong first half of the year, markets took a bit of a pause during the third quarter. Developed market equities rose slightly in the months leading up to September, while global bonds were largely unchanged. The moves in Emerging Market Equities were more notable. Events in China weighed on the asset class, which fell around 7% in sterling during the quarter.

Three issues really dominated our discussions over the past couple of months. The first was the global recovery. We've seen macro data deteriorate a little bit - which is to say that the recovery has continued, but perhaps not as strongly as some of the more optimistic expectations. We spent a good amount of time debating how the recovery would progress and how markets would react to growth that was strong, but maybe not as robust as some had hoped. Our current thinking is that robust growth, even if it doesn't quite match expectations, should help to support corporate profitability, and that should remain the key driver for equities, in particular. But it's an important issue and one that we'll continue to monitor.

The second focus of attention, again, was inflation. We've generally held the view, along with many others, that inflation would gradually normalise towards the 2% range that most developed market Central Banks use as a target. More importantly, we believed that Central Banks would be able to manage the glide path towards 2% without derailing the global recovery, via the gradual withdrawal of some of the exceptional stimulus we saw in 2020. Overall, it looks like central bankers are starting down the path of normalisation - perhaps a little earlier than we might have thought. But, in a world where supply chains remain under pressure, we think that removing stimulus will be a slow, careful process.

Finally, we spent a good amount of time thinking about China. We've seen a range of policy actions over the course of this year - targeting for-profit education, internet platforms and property companies. The travails of Evergrande, a large property company, merit close attention. In the short-term, we'd argue that the key issue is really the government's ability to manage the risks to the financial system from Evergrande and, perhaps, some of its peers. The key longer-term question, in our minds, is around the speed and shape of Chinese growth - and here we're anticipating slower and more balanced growth. In the long-term that's potentially a positive for the global economy, even if the transition period might see a few bumps along the way.

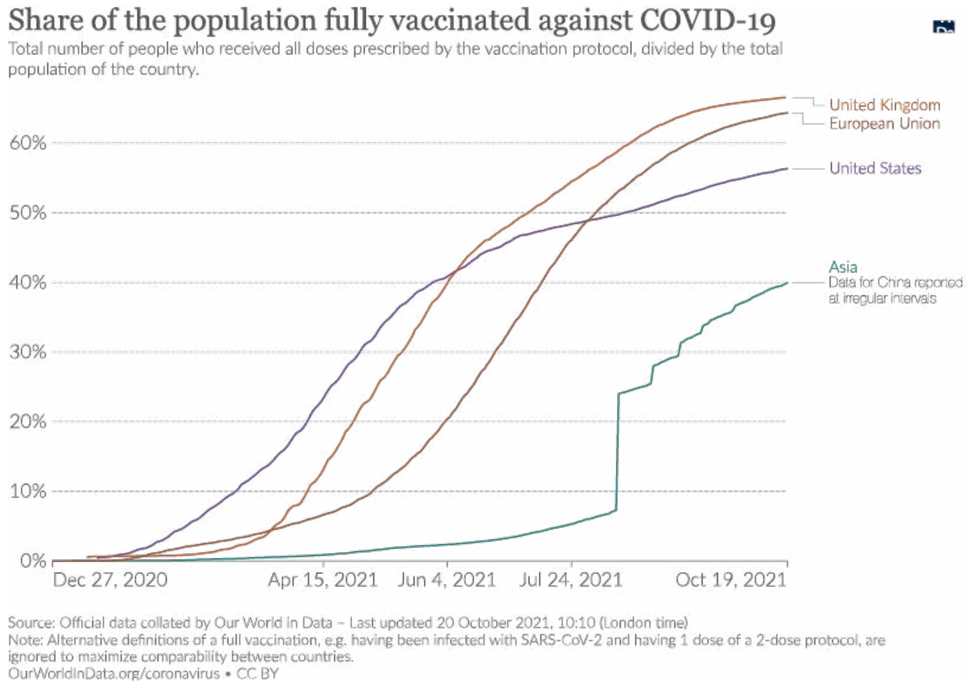
While returns were fairly muted during the quarter, so far this year, we’ve seen a combination of strong returns and low volatility in financial markets, even in the face of some potential headwinds. We remain generally constructive on the global recovery, and on the outlook for risky assets but we’d be pleasantly surprised if volatility over the next twelve months is as low as what we’ve seen over the past year.

Richard Flax
Chief Investment Officer

Back to reality

The third quarter of 2021 could scarcely have been more different from the rest of the year. As summer drew to a close, seemingly boundless optimism around the sharp recovery gave way to anxiety about what was next for financial markets.

In Q3, concerns around the broader economic recovery and the return to normality crept in. This was never going to be an easy quarter - this much was clear from the beginning - but any hopes of a swift and permanent return to normality were undone by a plateauing of vaccination rates and the ongoing impact of the delta variant. These combined to, partly at least, limit the ability for economies to fully normalise.

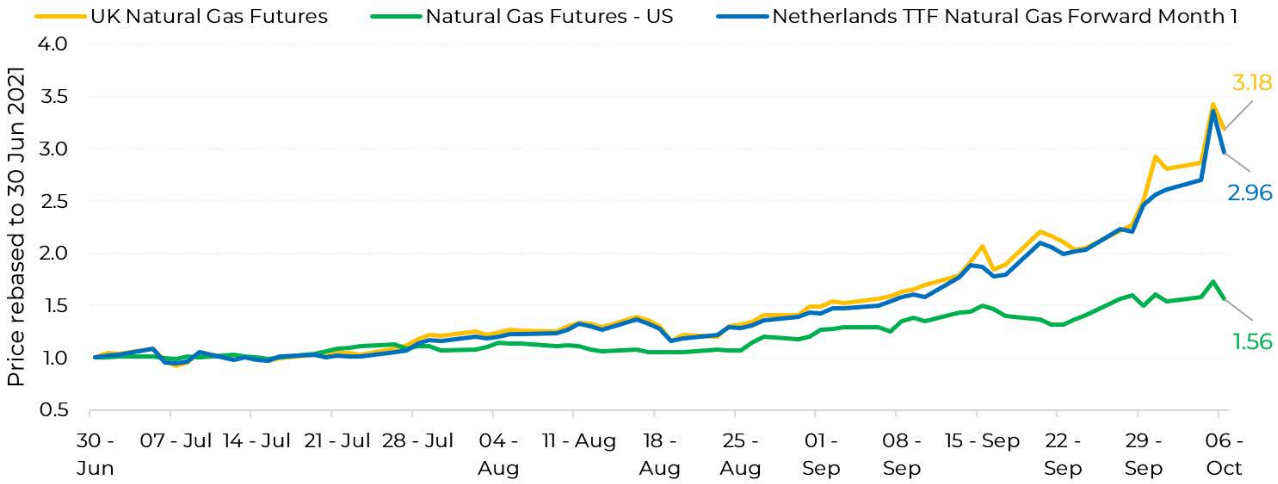


The last few months have also seen Chinese policymakers tightening their control on the country's tech giants (and growth champions), in the name of economic and social equality and more sustainable growth. As global investors, we were able to watch Chinese equities from a comfortable distance. The same cannot be said for Evergrande - the potential for China's largest real estate developer to collapse was, and still is, a concern.

While China grappled with the Evergrande debacle, the rest of the financial world turned its attention to global supply chains. Issues stocking inventories meant that businesses were unable to capitalise on surging demand and have seen their recoveries curtailed as a result.

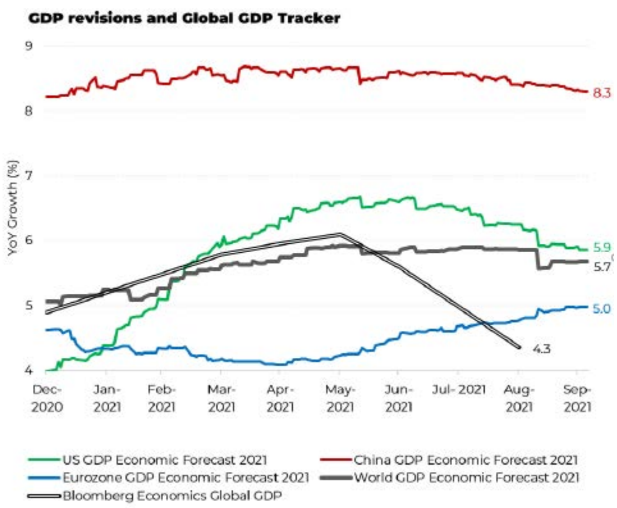
Also in September, another weak link in the global supply chain was exposed: energy dependence. As economic activity surged, Asia, Europe and the US began competing for energy. Renewable sources failed to meet the demand, so competition for natural gas and oil stepped up. Traditional exporters like the US were, for example, pressured to hold onto national reserves to sustain production.

Price Increase of Natural Gas contracts in US and Europe



Returns have been positive

Despite the issues faced in the quarter, the story for Q3 is still one of positive economic growth. You might have detected a theme among the disruption - that much of it was caused by excess demand. This, fortunately, gives the current environment a through-line of positivity. Economic momentum has weakened as a result of the issues we've covered but growth is still a long way from turning negative.



Policy support and solid growth kept equity markets positive for this quarter. Euro and Pound investors were helped by the US dollar, which is proving to be a safe haven for financial markets; while the performance of equities deteriorated in the second half of September, the dollar appreciated against its key global peers.

Inflation rears its head

When we assess the news cycle, it's important for us to see through the noise and determine what, exactly, a development means for our investors. The latest risk factor for us to consider is the chance that inflation could prove less transitory than policymakers might have liked. Until late September, most Developed Market Central banks had stuck to the "transitory" narrative, but we've begun to see a shift towards a more "hawkish" tone, or at least concern that elevated inflation may be with us longer than previously expected.

Inflation will play an important role in the delicate balance between expectations and actions from central bankers in the coming months. It has once again arisen as a chief concern for policymakers having been a non-issue for some time, while the definition of the word "transitory" - left deliberately vague by central bankers - may soon run out of road. If price growth continues to outpace the job market recovery, central bankers may be forced into action sooner than intended.

Shortly after Q3 closed, we tweaked our portfolios to respond to the risks we've discussed in this report. Ultimately, though, we have retained a consistent level of risk overall so that we can take advantage of market growth going forward.

All in all, we've acted to make our portfolios more robust, with an eye on what we expect to happen over the coming months. These changes will, in our view, make our portfolio better suited for navigating the normalisation of monetary policy and of the wider economy, a process that we expect to pick up pace in 2022 and beyond. You can read all the details of this latest rebalancing here.

Your Portfolio 6

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Your model portfolio

Your Moneyfarm portfolio is designed to replicate one of our seven model portfolios. A model portfolio comprises a diversified group of ETFs that target an expected return for a specified amount of risk, corresponding to your Investor Profile. Note that your portfolio and performance may differ from the model portfolio, depending on the amount invested in your portfolio and the timing of your cash flow.

These performance charts were made using a monthly index from ARC, or using a cash proxy, against which we have compared our model portfolios (after Moneyfarm's fees). This is compiled data from wealth managers and is net of fees. It includes data from large asset managers, private banks and wealth managers including close competitors of ours. It is submitted on a voluntary basis. These indexes show actual client returns for a given level of risk.

More information can be found here.

Performance

0.94% Last Quarter	9.09% Year to date	16.44% 1 Year	62.60% Since inception
Peer comparator ARC** 0.66%	Peer comparator ARC** 6.72%	Peer comparator ARC** 14.43%	Peer comparator ARC** 47.80%

P6

Model portfolio performance

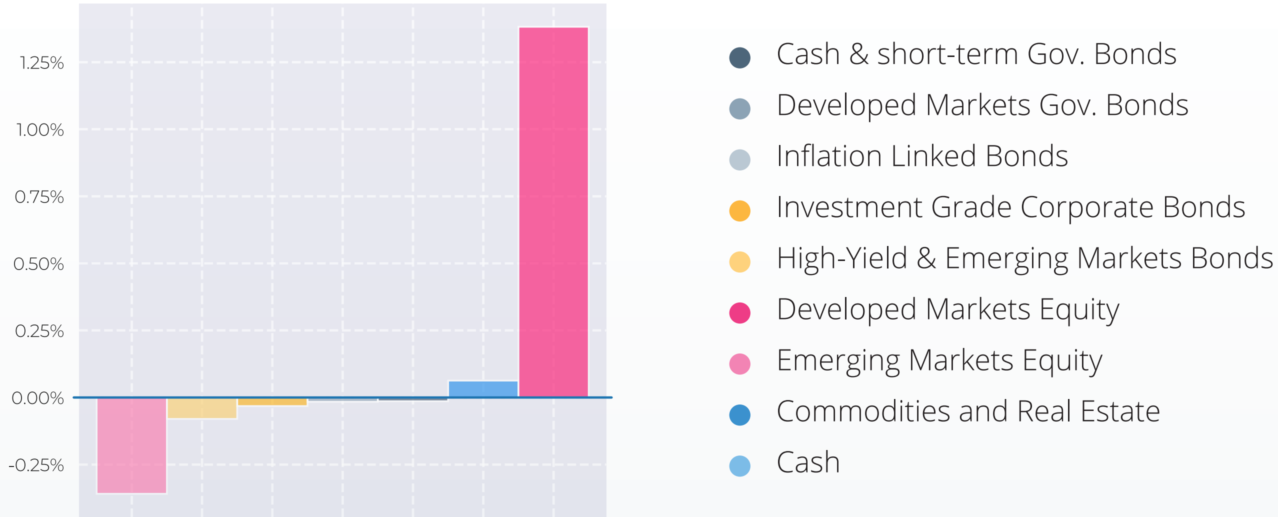
In the third quarter of 2021, the performance of the model portfolio was positive for P6.

Unlike the last two quarters, the trajectory of nominal and real rates on government bonds wasn't uniform, with rates falling initially and then rebounding at the end of the quarter. The government bond component posted a small negative return, having a minor impact on the portfolio performance.

Equities were once again the largest contributor to performance in the third quarter. Specifically, Developed Markets Equities outperformed Emerging Market ones, largely due to Chinese regulatory pressures and the uncertainty around Evergrande.

In this context, gold showed mixed performances and contributed positively to the performance of the portfolios, albeit marginally.

Performance attribution



Volatility

Here you'll find a breakdown of your portfolio's volatility over the last year, the last three years, and since its inception. The Sharpe ratio helps us to understand the returns of the portfolio relative to its risk.

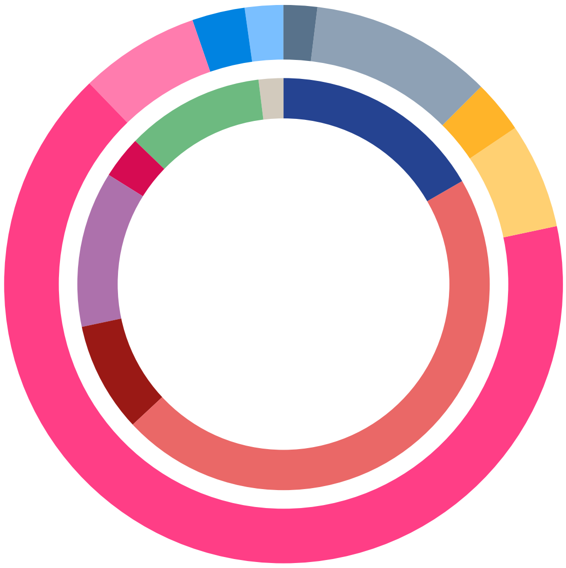
Volatility
8.6%
1.91
Sharpe Ratio*
1 Year

Volatility
12.2%
0.56
Sharpe Ratio*
3 Years

Volatility
10.5%
0.81
Sharpe Ratio*
Since Inception

*Sharpe Ratio assuming a 0-1 year GILT as risk free

Portfolio allocation



P6

Portfolio allocation

Cash & short-term Gov. Bonds	2.0%
Developed Markets Gov. Bonds	10.5%
Investment Grade Corporate Bonds	3.0%
High-Yield & Emerging Markets Bonds	6.0%
Developed Markets Equity	65.9%
Emerging Markets Equity	7.7%
Commodities and Real Estate	3.0%
Cash	2.0%

Geographic exposure

Eurozone	16.7%
United States	46.4%
Japan	8.7%
United Kingdom	12.3%
China	3.0%
Emerging Market (excluding China)	11.1%
Other developed countries	1.8%

Currency exposure

P6

Sterling	66.3%
US Dollar	15.1%
Japanese Yen	5.8%
Euros	1.4%
Other (CARRY, Scandi)	0.8%
Emerging Markets	10.6%

ETF breakdown

Name	ISIN	Weight	TER	Currency Hedged
Emerging Markets Sovereign Bond local currencies	IE00B4613386	3.0%	0.55%	N
Emerging Markets Equities local currencies	IE00BKM4GZ66	7.7%	0.18%	N
UK Sovereign Bonds Short Maturities	IE00B4WXJK79	2.0%	0.07%	N
UK Investment Grade Corporate Bonds 0-5 years	IE00B5L65R35	3.0%	0.20%	N
Global Developed Markets Equities (MSCI WORLD) Sterling Hedged	IE00BD45YS76	12.2%	0.30%	Y
Developed Market Equity (MSCI World Value)	IE00BP3QZB59	4.0%	0.30%	N
Emerging Markets Sovereign Bond in US Dollar	IE00B2NPKV68	3.0%	0.45%	N
Gold	IE00B579F325	3.0%	0.19%	N
Japan Equities (MSCI JAPAN)	IE00B4L5YX21	4.7%	0.15%	N
UK Equities (FTSE250)	IE00BKX55Q28	3.0%	0.10%	N
UK Equities (FTSE100)	IE00B810Q511	3.5%	0.09%	N
US Equities (S&P500)	IE00B3XXRP09	7.5%	0.07%	N
Euro Equities (MSCI EMU) Sterling hedged	LU1127516455	9.3%	0.17%	Y
US Equities (S&P500) Sterling hedged	IE00BM67HX07	21.7%	0.09%	Y
Global Sovereign Bonds Sterling hedged	LU0641006290	10.5%	0.25%	Y
Cash	cash	2.0%		N

Peer Comparison Data: Asset Risk Consultants ARC collects the monthly returns of a collection of discretionary investment managers including large Asset managers, private banks and Wealth Managers to create an index of the average returns for a given level of risk. **ARC benchmarks are as follows. Private Client Index Relative: Risk to World Equities: ARC Cautious PCI: 0 – 40% / ARC Balanced Asset PCI: 40 – 60% / ARC Steady Growth PCI: 60 – 80% / ARC Equity Risk PCI: 80 – 110%. Where the relative risk to World Equities means you are taking approximately that percentage of the risk global stock markets. Moneyfarm's Risk level 2 is compared to the ARC Cautious Private Client Index (PCI), our risk levels 3 and 4 use the ARC Balanced Asset Private Client Index (PCI), levels 5 and 6 are both compared to ARC Steady Growth Private Client Index (PCI) and our risk level 7 is matched to ARC Equity Risk Private Client Index PCI.
ARC compiles indexes using the average competitor returns, including Barclays Wealth, HSBC, Investec Wealth and Investment and Blackrock, as well as many others.
The last 3 months of data are ARC's estimates.

Asset allocation changes

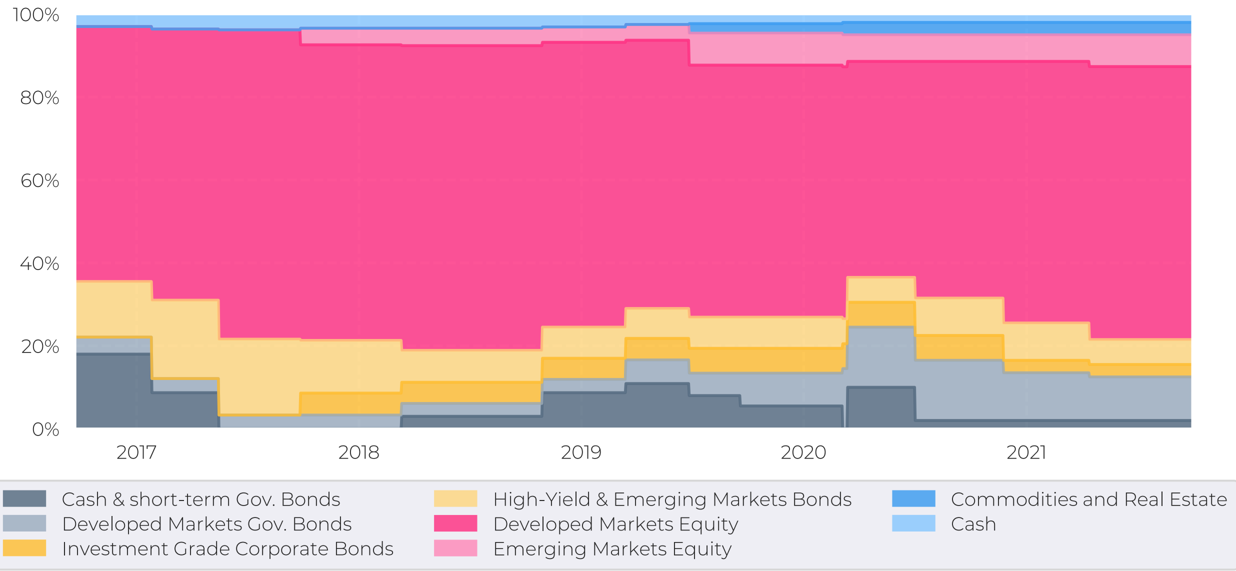
It has been a couple of quarters since the April rebalance, so we decided to introduce some adjustments to the composition of our portfolios. The repositioning is limited in scope and is based on some tactical views, with the fundamental structure of the portfolio remaining very similar to that which has served us well so far in 2021.

Despite ostensible signs of slowing global growth following the significant post-pandemic rebound, we believe the outlook for next year is positive and that corporate earnings still have room to grow.

The equity exposure of our portfolios remains unchanged in absolute terms, but we have decided to partially cut our exposure to UK small caps and redistribute the weight on global equities. We believe the attractive valuations are less relevant now given the uncertain scenario surrounding the UK economy and the fact that a large portion of the rebound in revenue and earnings from cyclical segments is now behind us.

On the bond side we have decided to cut the duration of our portfolios, by selling emerging bonds in local currency and some IG corporate bonds and by purchasing a short duration High Yield ETF, since we think the credit risk will be less relevant than the interest rate risk in the next quarters.

Your portfolio's allocation over time



Here's what's new

A look at one of our new ESG portfolios

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ESG - Level 4

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Excellent

Trustpilot

The portfolios are built based on a careful selection process, ensuring they maintain the quality of traditional portfolios while meeting only the highest of ESG standards. They are composed of exchange traded funds (ETFs) with an emphasis on environmental sustainability, awareness of social issues, and sound governance.

Funds are selected and monitored using a standard set of MSCI metrics including companies' voting policies, involvement in social controversies, future exposure to ESG-related risks with a particular focus on the environmental impact of the portfolios' underlying investments. We apply a negative screening alongside the best-in-class approach, to provide an additional layer of protection against companies that engage in controversial practices.

Where we need more information on a fund's suitability, direct communication with ETF issuers gives us additional detail and ad-hoc insight. For more information check out our Deep Dive.

Who is this for?

Moneyfarm's ESG portfolios are suitable for investors aiming for long-term capital gains, who are prepared to see substantial movements both up and down in the value of their investment over time.

Investing in a Pension, ISA or GIA should be viewed as part of a long-term investment strategy (though funds can be withdrawn at any time from our ISA or GIA). Investing for less than five years is unlikely to be appropriate.

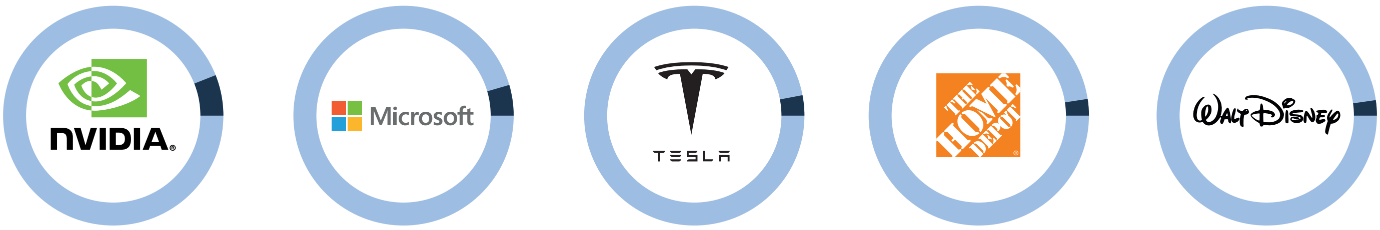
This portfolio aims to generate a steady return, blending risk and reward. It is Moneyfarm's most balanced product. It includes a range of ETFs, with typically 40-60% of the portfolio invested in global equities and the remainder diversified across fixed income and commodities.

With investing, your capital is at risk.

Fund breakdown

Name	Asset Class	ISIN	Allocation
iShares - UK Gilts 0-5yr UCITS ETF	Cash & short-term Gov. Bonds	IE00B4WXJK79	7.30%
Lyxor - Green Bond DR UCITS ETF	Investment Grade Corporate Bonds	LU1563454310	5.00%
iShares - USD Corp Bond 0-3yr ESG UCITS ETF	Investment Grade Corporate Bonds	IE00BK7Y2S64	11.00%
ISHARES - EURO CORP ESG GBP-HD	Investment Grade Corporate Bonds	IE00BK74KV56	5.00%
AMUNDI - US CORP SRI UCITS ETF DR C	Investment Grade Corporate Bonds	LU1806495575	5.00%
Xtrackers II - Global Inflation-Linked Bond UCITS ETF	Inflation Linked Bonds	LU0641007264	5.00%
UBS ETF - JP Morgan USD EM IG ESG Diversified Bond UCITS ETF	High-Yield & Emerging Markets Bonds	LU1974695790	7.00%
iShares - MSCI World SRI UCITS ETF	Developed Markets Equity	IE00BMZ17T93	9.20%
iShares - MSCI USA SRI UCITS ETF	Developed Markets Equity	IE00BMWPV470	20.00%
UBS - MSCI EMU Socially Responsible UCITS ETF	Developed Markets Equity	LU0629460675	3.00%
UBS - MSCI Pacific Socially Responsible UCITS ETF	Developed Markets Equity	LU0629460832	4.00%
UBS - MSCI USA Socially Responsible UCITS ETF	Developed Markets Equity	LU0629460089	4.00%
UBS -MSCI United Kingdom IMI Socially Responsible UCITS ETF	Developed Markets Equity	IE00BMP3HN93	6.00%
UBS - MSCI Emerging Markets Socially Responsible UCITS ETF	Emerging Markets Equity	LU1048313891	6.50%

Top 5 Holdings



3.34% 3.02% 2.79% 2.17% 2.08%

Equity breakdown

Sector	Allocation
Basic Materials	4.2%
Communications	9.6%
Consumer, Cyclical	15.0%
Consumer, Non-cyclical	26.7%
Diversified	0.0%
Energy	1.1%
Financial	21.2%
Government	0.0%
Industrial	9.2%
Technology	11.8%
Utilities	1.2%

Geographical breakdown

Location	Allocation
Eurozone	13.53%
USA	44.88%
Japan	4.16%
United Kingdom	18.72%
Switzerland	0.83%
Australia/New Zealand	4.36%
Scandinavia	0.78%
Emerging Markets	12.01%
Other	0.73%

ESG Score data

How we decide which investments to include in our ESG Portfolios

ESG Quality Score: The ability of underlying holdings to manage key medium to long term risks and opportunities arising from environmental, social, and governance factors. It is based on MSCI ESG Ratings and is measured on a scale of CCC to AAA (worst to best).

Moneyfarm's Sovereign Score: Moneyfarm's proprietary tool for looking at the ESG-characteristics of the Governments whose bonds form a part of the portfolios, focusing on where their Government spending is focused.

Moneyfarm's Engagement Score: Our tool to measure how well ETF providers are pushing for positive change from the underlying companies you are invested in.

Average carbon emissions

42.3%
Lower*

Relative to revenues and compared to companies in a non-ESG portfolio

United Nations Global Compact

100.0%
Compliance*

Covers climate, working conditions, diversity, corruption and more

Labour laws

100.0%
Compliance*

Includes prohibition of child labour, unfair discrimination, forced labour and more

ESG Quality score

AA

Based on leading ESG data provider MSCI's rankings

A note on performance

We understand when opening an ESG portfolio, a large factor in the decision making process will be driven by the desire to protect and grow one's wealth over the long term. It's natural for those opting for ESG, at the very least, to keep pace with a regular investment portfolio.

Whilst at this early stage, we are unable to display performance figures - we have run simulations of back tested performance projections to give you an idea how they would have performed. Across our range of portfolios since our inception, the performance would have been slightly more favourable than our regular investment portfolios.

Of course, simulated past performance is no indication of future returns, we can't guarantee that our ESG portfolios will perform as well or better than our regular ones. Investors should be prepared for their portfolios to dip in value as well as grow and may get back less than what was invested. However, it is becoming increasingly clear that socially responsible portfolios have the potential to perform alongside regular ones.

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Risk warning, as with all investing, your capital is at risk. The value of your pension can fall as well as rise and you may get back less than you invest. Eligibility to invest in a pension depends upon your circumstances. Tax rules may change in the future. If you need help with pensions, seek independent financial advice. Note that you can't withdraw money from a personal pension until you're 55.

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