



Quarterly **Investment Report**

Flying Colours Core
Discretionary Management Service
Q4 2022

Introduction

I'm pleased to provide you with the Core Portfolio Investment report for Q4 2022.

The financial markets continue to be volatile, due to the wider macro-economic issues affecting UK and global markets. As ever, our investment management team continue to monitor and adapt your portfolios where appropriate. This report provides you with an overview of the markets and how your portfolios have performed over the last quarter.

In this edition we cover the following:

- Market Review Q4
- Outlook for Q1
- Asset Selection and Portfolio Review
- Portfolio Performance Summary and Breakdown

I hope you find this report useful. Your Flying Colours Financial Adviser is on hand if you have any questions relating to this report, or our portfolios in general.

Best wishes,



Guy Myles
Chief Investment Officer

Market Review Q4 2022

Overview

The final quarter of 2022 was a mixed period for equities. The US struggled whilst non-US equities started to recover from a difficult year. In terms of fixed income, assets continued the trend of 2022 by not providing the level of protection we would expect when equities deliver negative returns, as they have done historically for the past 40 years.

The macro-environment continued to be mixed regionally, with Europe continuing its battle with the consequences of the war in Ukraine. Inflation has remained stubbornly high and a significant slowdown risk has arisen. Conversely, the US economy has remained resilient and there are no apparent signs of recession, although the NASDAQ has faced continued pressure.

Overall, markets delivered positive returns as strong performance was seen in Emerging Markets and Asian equities, mainly due to the reopening of China's economy after a prolonged closure due to the COVID pandemic.

UK

In the UK, consumer sentiment continued to remain at a depressed level and the Purchasing Managers Index (PMI) remained below 50, indicating signs of a market contraction. Meanwhile, the labour market showed resilience with the unemployment rate beating expectations at 3.7%. Inflation in the UK has remained high and the Bank of England continued to raise interest rates, but we are starting to see signs of inflation easing. A recession is still expected, albeit less severe.

Europe ex-UK

The situation continued to deteriorate in Europe due to the ongoing energy crisis; as a result, inflation continues to weigh heavily on monetary policy. Whilst inflation has eased from its peak in September, it remains stubbornly high and is at risk of becoming entrenched. The European Central Bank (ECB) continues to increase interest rates, but at a slower pace than previous rate hikes; the ECB president warned that interest rates will continue to be higher.

US

With inflation dropping, and strong employment and GDP figures from the US, the economy could potentially avoid a recession. US GDP beat expectations again, rebounding from the earlier contraction. However, the economy is sending mixed messages. On the one hand, the labour market remained robust, but on the other, business confidence continued to drop to a level consistent with a slowdown. The Federal Reserve (FED) remains committed to bringing inflation down, even if that means entering a recession as it is concerned with the strength of the US labour market.

Japan

The Japanese economy steadily improved on the back of its reopening. While inflation reached an historic high since 1991, it remained at a modest 4%. The Bank of Japan surprised the markets by announcing a significant change to its policy of yield curve control, allowing bond yields to rise more than previously.

Emerging Markets/Asia

In China, the easing of COVID restrictions saw a surge in infections, which has affected investment sentiment; fewer businesses are looking to invest during this period of disruption and uncertainty.

With inflation also impacting Australia, the Reserve Bank of Australia raised its policy rate by another 0.25% and said it expects further tightening. Growth is much lower than expected based on lower consumption.

Outlook

The main market issue is the re-emergence of inflation after a long hibernation. Our long-term prediction is that we are entering a structurally higher inflationary period as deglobalisation, falling working-age populations and shortages of commodities persist. To a large extent, we positioned our portfolios for this environment and this is how we managed to generate positive returns relative to our peers, during the year to date.

Transitioning from a lower predictable inflation rate to a higher and less predictable one will be problematic for asset prices; but it will also create opportunities that we can use as discretionary managers, to help our clients achieve their objectives: maintaining relative wealth in weak markets and taking opportunities as they arise.

Asset Selection & Portfolio Review

Amidst an unprecedented year of high inflation, volatile markets, and rising interest rates, our focus has been on controlling risk and outperforming the portfolios designated benchmark.

Asset Allocation Changes

As investment managers, we continually evaluate our portfolios to balance risk and potential returns. Considering the current economic climate, this quarter's asset allocation changes were measured. During the UK mini-budget-induced market turbulence, UK corporate bonds represented outstanding value, and we took advantage by increasing our exposure to this asset class. This involved decreasing our cash positions by 5% on average across the Core portfolio and increasing investment in the BlackRock Corporate Bond 1-10 Year D Acc.

We maintained our exposure to regional equity and this remains unchanged, as your portfolio aligns with our long-term outlook regarding the state of the economy, our inflation expectation and the relative valuation.

We will keep exploring options for diversifying our portfolios to seize potential opportunities. However, regardless of your investment style, this has been an historic year and an active approach to investment management is necessary to maintain alignment with our portfolio mandates.

Cautious Portfolios

Core Defensive

Core Defensive Portfolio performance was up by 2.6% for Q4 and fell by 8.3% for the year.

Benchmark IA Mixed Investment 0-35% returned 2.3% Q4 and fell by 10.2% for the year.

Even our most cautious portfolios felt the effects in this very difficult market. With bond yields increasing, prices have reduced, resulting in a negative return. While the portfolio has negative absolute return it has outperformed its benchmark. Despite the negativity in the market, some of our holdings provided positive returns, helping to stabilise the portfolio. Within fixed income, BlackRock Corporate Bond 1-10 Year was a positive performer returning 6.2% and the Baillie Gifford High Yield Bond returned 5.12%. From an equity perspective, the Fidelity Index Europe ex UK produced a 12.4% return for the quarter and the BlackRock Natural Resources Growth & Income produced a 9% return. Our holding in the iShares Overseas Government bond fund suffered a loss of 5.3%, due to the US yield sell-off and rising interest rates globally.

Core Conservative

Core Conservative Portfolio performance was up 3.6% for Q4 and fell by 6.8% for the year.

Benchmark IA Mixed Investment 20-60% returned 3.1% for Q4 and fell by 9.7% for the year.

Similar to our Defensive portfolio, but with a higher equity position, whilst the Core Conservative portfolio had a negative absolute return, it still outperformed its benchmark for the quarter and year to date.

It benefited from higher exposure to equity. As a result, it has a higher allocation to Asia, Emerging Markets and Japan through the HSBC Pacific Index (5.8%), Fidelity Index Japan (3.4%) and the Fidelity Index Emerging Markets (1.2%).

Balanced Portfolio

Core Balanced

Core Balanced Portfolio performance was up 4.5% for Q4 and fell by 5.7% for the year.

Benchmark 50:50 IA Mixed Investment 20-60 & 40-85 returned 3.0% for Q4 and fell by 9.9% for the year.

This portfolio aims to achieve a balance between risk and return. The portfolio equity exposure is approximately 60% (59.9% as at 31st December 2022). Due to the composition of the balanced portfolio, we utilise a composite benchmark, which also provides a degree of flexibility with how we run this mandate. Core Balanced outperformed its benchmark during Q4 and for 2022. With a higher equity content and further exposure to commodities through the BlackRock Natural Resources Growth & Income, it has benefited from this diversification. A higher position in the Vanguard FTSE UK All Share Index assisted in managing risk and keeping losses to a minimum. The US saw losses in equities with the Vanguard US Index providing a negative return of 0.6%. As this is a balanced portfolio, we still had exposure to iShares Overseas Government bond, which showed a loss of 5.1%. However, the UK Corporate Bond provided a positive return for the quarter of 6.2%.

Growth Portfolios

Core Growth

Core Growth Portfolio performance was up 5.1% for Q4 and fell by 5.0% for the year.

Benchmark IA Mixed Investment 40-85% returned 3.0% for Q4 and fell by 10.2% for the year.

The first of our Growth range has also outperformed its respective benchmark for the quarter and the year. Its lower exposure to bonds (20%) has meant losses were limited. The portfolio benefited from additional positioning in Asia through HSBC Pacific Index and

Fidelity Index Japan (2.26%) as the Chinese economy re-opened during the quarter. In addition, the portfolio benefited from the higher allocation to Japan through Fidelity Japan. The exposure to Europe and Emerging Markets further contributed to performance in the last quarter of the year.

Core Growth Plus

Core Growth Plus Portfolio performance was up 5.3% for Q4 and fell by 4.7% for the year.

Benchmark 50:50 IA Mixed Investment 40-85 & Flexible Investment returned 2.9% for Q4 and fell by 9.7% for the year.

Our second highest equity-based portfolio (85.3%) utilises a composite benchmark to best fit the strategy and provide flexibility. It has outperformed its respective benchmarks for both the quarter and the year. The higher exposure to commodities in the US and Japan benefited the portfolio, all producing positive returns. The recovery in UK asset and our position positively impacted the portfolio. Our low bond exposure, particularly to the UK, has kept the risk levels and losses to a minimum.

Core Aggressive

Aggressive Portfolio performance was 5.3% for Q4 and fell by 4.6% for the year.

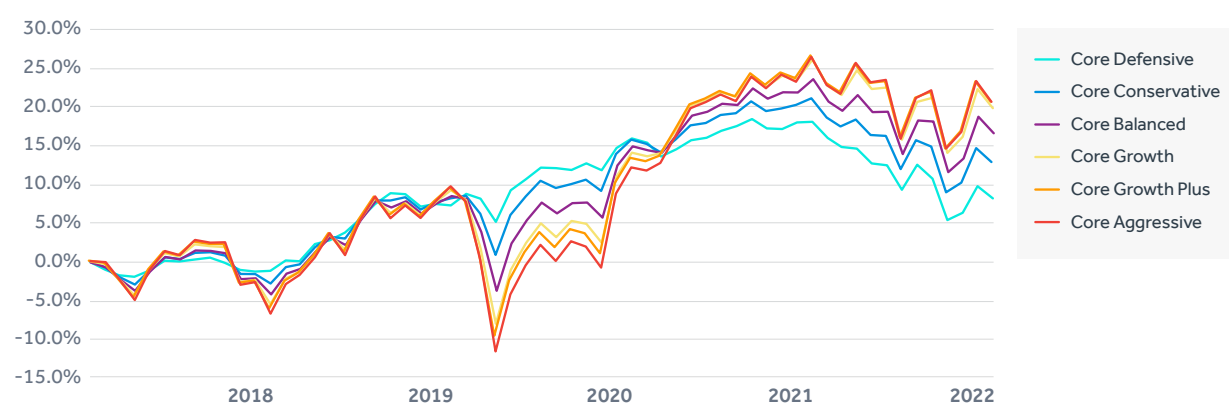
Benchmark IA Flexible Investment returned 2.8% for Q4 and fell by 9.1% for the year.

Our highest equity-based portfolio (91.9%) has outperformed the return of its respective benchmark for the quarter and outperformed year to date. The portfolio has benefited by having no exposure to UK Gilts, larger positions in US, commodities, and Japan, and with higher exposure to UK and emerging market equities. Due to its high equity positioning, it is susceptible to market movements more than our other offerings.

Portfolio Performance

We utilise Investment Association (IA) sectors as benchmarks to measure how we have performed. These are used by our peers and are widely used across the fund management industry. The ones selected are the closest to our asset allocation, therefore providing a good indication as to how we have performed. They also act as indicators of specific market and asset performance.

Core Portfolio Performance



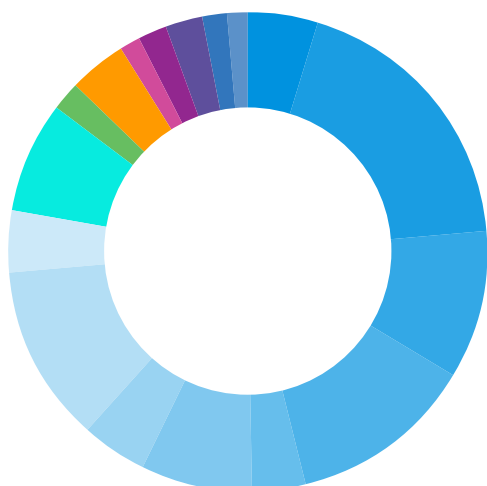
Cumulative Performance	3 Months	6 Months	1 year	3 Years	5 Years
FC Core Defensive	2.6	-1.0	-8.3	0.8	8.1
IA Mixed Investment 0-35% Shares	2.3	-1.4	-10.2	-4.2	0.6
FC Core Conservative	3.6	0.8	-6.8	4.3	12.8
IA Mixed Investment 20-60% Shares	3.1	-0.1	-9.7	-0.6	5.7
FC Core Balanced	4.5	2.4	-5.7	7.5	16.7
50:50 IA Mixed Investment 20-60 & 40-85	3.0	0.4	-9.9	2.4	10.2
FC Core Growth	5.1	3.5	-5.0	9.7	19.8
IA Mixed Investment 40-85% Shares	3.0	0.9	-10.2	5.4	14.8
FC Core Growth Plus	5.3	4.0	-4.7	10.1	20.6
50:50 IA Mixed Investment 40-85 & Flexible	2.9	1.2	-9.7	6.8	15.9
FC Core Aggressive	5.3	4.1	-4.6	10.0	20.6
IA Flexible Investment	2.8	1.5	-9.1	8.3	16.9

YTD & Calendar Year Returns	YTD	2022	2021	2020	2019	2018
FC Core Defensive	-8.3	-8.3	1.8	8.0	8.5	-1.1
IA Mixed Investment 0-35% Shares	-10.2	-10.2	2.6	4.0	8.8	-3.4
FC Core Conservative	-6.8	-6.8	4.6	7.0	11.3	-2.9
IA Mixed Investment 20-60% Shares	-9.7	-9.7	6.3	3.5	12.1	-5.1
FC Core Balanced	-5.7	-5.7	7.6	5.9	13.3	-4.1
50:50 IA Mixed Investment 20-60 & 40-85	-9.9	-9.9	8.7	4.5	14.0	-5.6
FC Core Growth	-5.0	-5.0	10.5	4.4	15.6	-5.5
IA Mixed Investment 40-85% Shares	-10.2	-10.2	11.2	5.5	15.9	-6.1
FC Core Growth Plus	-4.7	-4.7	11.7	3.5	16.6	-6.2
50:50 IA Mixed Investment 40-85 & Flexible	-9.7	-9.7	11.3	6.3	15.8	-6.4
FC Core Aggressive	-4.6	-4.6	12.8	2.2	17.7	-6.8
IA Flexible Investment	-9.1	-9.1	11.4	7.0	15.6	-6.6

Source: Morningstar Direct

Core Portfolio Breakdown

Core Defensive



Bonds	78.1	
L&G Short Dated E Corporate Bd Idx I Acc	5.0	
Vanguard U.S. Govt Bd Idx E H Acc	18.8	
BlackRock Corporate Bond 1-10 Year D Acc	10.0	
L&G Global Inflation Linked Bd Idx I Acc	12.5	
iShares Overseas Govt Bd Idx (UK) D Acc	3.6	
iShares UK Gilts All Stks Idx (UK) D Acc	7.5	
L&G EM Govt Bond Lcl Ccy Index I Acc	4.5	
Vanguard Global Corporate Bond	12.2	
Baillie Gifford High Yield Bond	4.0	
UK Equities	7.5	
Fidelity Index UK P Acc	7.5	
Cash & Money Market	2.0	
Cash	2.0	
US Equities	3.8	
Vanguard U.S. Eq Idx E Acc	3.8	
Japanese Equities	1.5	
Fidelity Index Japan P Acc	1.5	
Asia Pacific	2.0	
HSBC Pacific Index Accumulation C	2.0	
Global Equities	2.5	
Dimensional Global Value GBP Acc	2.5	
Specialist	2.8	
BlackRock Natural Resources Growth & Income	1.5	
FTF ClearBridge Global Infrastructure Income	1.3	

Core Conservative



Bonds	57.7	
L&G Short Dated E Corporate Bd Idx I Acc	4.2	
Vanguard U.S. Govt Bd Idx E H Acc	8.4	
BlackRock Corporate Bond 1-10 Year D Acc	9.2	
L&G Global Inflation Linked Bd Idx I Acc	10.5	
iShares Overseas Govt Bd Idx (UK) D Acc	3.2	
iShares UK Gilts All Stks Idx (UK) D Acc	5.5	
L&G EM Govt Bond Lcl Ccy Index I Acc	3.3	
Vanguard Global Corporate Bond	10.1	
Baillie Gifford High Yield Bond	3.3	
UK Equities	13.7	
Vanguard FTSE UK All Shr Idx Unit TrEAcc	4.1	
Fidelity Index UK P Acc	9.6	
Cash & Money Market	2.0	
Cash	2.0	
European Equities	1.8	
Fidelity Index Europe ex UK P Acc	1.8	
US Equities	4.8	
Vanguard U.S. Eq Idx E Acc	4.8	
Emerging Markets	3.8	
Fidelity Index Emerging Markets P Acc	3.8	
Japanese Equities	3.8	
Fidelity Index Japan P Acc	3.8	
Asia Pacific	3.2	
HSBC Pacific Index Accumulation C	3.2	
Global Equities	4.6	
Dimensional Global Value GBP Acc	4.6	
Specialist	5.1	
BlackRock Natural Resources Growth & Income	2.8	
FTF ClearBridge Global Infrastructure Income	2.3	

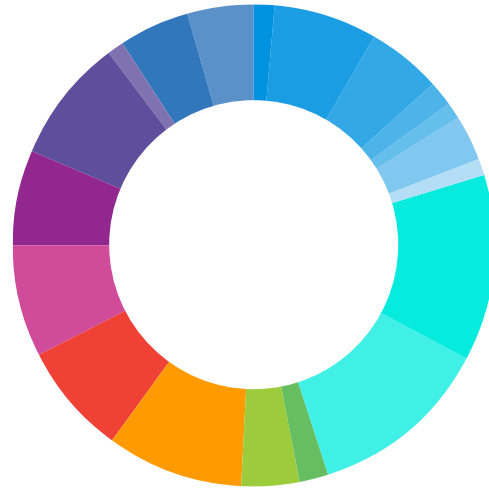
Core Portfolio Breakdown

Core Balanced



Bonds	38.1	
L&G Short Dated E Corporate Bd Idx I Acc	3.0	
Vanguard U.S. Govt Bd Idx E H Acc	4.7	
BlackRock Corporate Bond 1-10 Year D Acc	7.7	
L&G Global Inflation Linked Bd Idx I Acc	8.5	
iShares UK Gilts All Stks Idx (UK) D Acc	3.5	
L&G EM Govt Bond Lcl Ccy Index I Acc	2.1	
Vanguard Global Corporate Bond	6.4	
Baillie Gifford High Yield Bond	2.2	
UK Equities	19.5	
Vanguard FTSE UK All Shr Idx Unit TrEAcc	10.0	
Fidelity Index UK P Acc	9.5	
Cash & Money Market	2.0	
Cash	2.0	
European Equities	3.0	
Fidelity Index Europe ex UK P Acc	3.0	
US Equities	7.0	
Vanguard U.S. Eq Idx E Acc	7.0	
Emerging Markets	5.9	
Fidelity Index Emerging Markets P Acc	5.9	
Japanese Equities	5.8	
Fidelity Index Japan P Acc	5.8	
Asia Pacific	5.2	
HSBC Pacific Index Accumulation C	5.2	
Global Equities	6.5	
Dimensional Global Value GBP Acc	6.5	
Specialist	7.2	
BlackRock Natural Resources Growth & Income	3.9	
FTF ClearBridge Global Infrastructure Income	3.3	

Core Growth



Bonds	20.6	
L&G Short Dated E Corporate Bd Idx I Acc	1.6	
L&G Global Inflation Linked Bd Idx I Acc	6.8	
BlackRock Corporate Bond 1-10 Year D Acc	5.0	
iShares UK Gilts All Stks Idx (UK) D Acc	1.8	
L&G EM Govt Bond Lcl Ccy Index I Acc	1.1	
Vanguard Global Corporate Bond	3.2	
Baillie Gifford High Yield Bond	1.1	
UK Equities	24.8	
Vanguard FTSE UK All Shr Idx Unit TrEAcc	12.4	
Fidelity Index UK P Acc	12.4	
Cash & Money Market	2.0	
Cash	2.0	
European Equities	3.9	
Fidelity Index Europe ex UK P Acc	3.9	
US Equities	9.1	
Vanguard U.S. Eq Idx E Acc	9.1	
Emerging Markets	7.5	
Fidelity Index Emerging Markets P Acc	7.5	
Japanese Equities	7.5	
Fidelity Index Japan P Acc	7.5	
Asia Pacific	6.6	
HSBC Pacific Index Accumulation C	6.6	
Global Equities	9.3	
Dimensional Global Value GBP Acc	8.3	
Vanguard Glb Small-Cp Idx E Acc	1.0	
Specialist	9.2	
BlackRock Natural Resources Growth & Income	5.0	
FTF ClearBridge Global Infrastructure Income	4.2	

Core Portfolio Breakdown

Core Growth Plus



Bonds	12.8
L&G Global Inflation Linked Bd Idx I Acc	6.9
BlackRock Corporate Bond 1-10 Year D Acc	5.0
iShares UK Gilts All Stks Idx (UK) D Acc	0.9
UK Equities	27.2
Vanguard FTSE UK All Shr Idx Unit TrEAcc	13.6
Fidelity Index UK P Acc	13.6
Cash & Money Market	2.0
Cash	2.0
European Equities	4.5
Fidelity Index Europe ex UK P Acc	4.5
US Equities	9.8
Vanguard U.S. Eq Idx E Acc	9.8
Emerging Markets	8.2
Fidelity Index Emerging Markets P Acc	8.2
Japanese Equities	8.1
Fidelity Index Japan P Acc	8.1
Asia Pacific	7.2
HSBC Pacific Index Accumulation C	7.2
Global Equities	10.5
Dimensional Global Value GBP Acc	9.0
Vanguard Glb Small-Cp Idx E Acc	1.5
Specialist	9.9
BlackRock Natural Resources Growth & Income	5.4
FTF ClearBridge Global Infrastructure Income	4.5

Core Aggressive



Bonds	4.1
L&G Global Inflation Linked Bd Idx I Acc	4.1
UK Equities	29.0
Vanguard FTSE UK All Shr Idx Unit TrEAcc	14.5
Fidelity Index UK P Acc	14.5
Cash & Money Market	4.0
Cash	4.0
European Equities	4.9
Fidelity Index Europe ex UK P Acc	4.9
US Equities	10.4
Vanguard U.S. Eq Idx E Acc	10.4
Emerging Markets	8.7
Fidelity Index Emerging Markets P Acc	8.7
Japanese Equities	8.8
Fidelity Index Japan P Acc	8.8
Asia Pacific	7.8
HSBC Pacific Index Accumulation C	7.8
Global Equities	11.8
Dimensional Global Value GBP Acc	9.7
Vanguard Glb Small-Cp Idx E Acc	2.1
Specialist	10.7
BlackRock Natural Resources Growth & Income	5.8
FTF ClearBridge Global Infrastructure Income	4.9



Head Office

1301, Ocean House, The Ring
Bracknell, Berkshire RG12 1AX

0333 241 9900

Lincoln

1 Ingleman Place, The Lawn
Lincoln LN1 3BU

01522 712 514

Liverpool

Yorkshire House, 18 Chapel Street
Liverpool L3 9AG

0151 909 4937

fcadvice.co.uk

The value of an investments, and any income from it, can fall as well as rise. Past performance is not a reliable indicator of future performance and investors may not get back the full amount they invested. Flying Colours Investment Management Limited is authorised and regulated by the Financial Conduct Authority under number 922882. We are registered in England and Wales under company number 12433663 at 1301 Ocean House, The Ring, Bracknell, Berkshire RG12 1AX.