VOBIS

Action Required

Portfolio Alteration Request

Active Index Cautious to Moderate v4.1 to

Active Index+ Cautious to Moderate v5.0

November 2025

We never stand still

The investment universe doesn't stand still, it continually evolves, and this is especially relevant with the US electorate appointing President Trump and the impact he has had on capital markets during 2025 where we experienced a whipsaw in equity markets in the Spring and then a bounce back to record highs for many of the markets.

The question we have asked ourselves is "do our portfolios have enough protection in place to compensate for heightened volatility which may present itself in an overvalued AI sector". In addition "how do we keep costs down whilst increasing diversification benefit?"

The outcome of the research demonstrated that we were able to answer these questions by making tactical alterations to the existing Active Index portfolio which uses index funds with a tactical asset allocation focus and by adding a + to this approach which introduces a layer of defensive strategies to combat short term volatility.

- **Active** — **Macro-economic research & asset allocation**
- **Index** — **Low-cost funds at portfolio level**
- **Portfolio** — **Diversification benefit**
- **+** — **Layering defensive techniques and alternative funds into asset allocation**

The importance of +

- For clients who are focused on wealth preservation, defensive strategies which include certain fixed income investments and absolute return funds that are characterised by often benchmark-agnostic strategies and active risk management.
- The aim is to provide a robust defensive layer within portfolios offering better volatility dampening and reduction of drawdown especially during prolonged market stress or economic uncertainty. We can dial up the + when we are concerned about volatility and dial down the + when markets are more certain.

Benefit	Description
Steady Returns	Tend to deliver consistent, low-volatility performance, targeting modest positive returns linked to cash or a small premium.
Diversification Play	Adds a source of returns independent of stock/bond markets—ideal for defensive allocations.
Tactical Flexibility	Fund managers can go long or short across markets, adjusting positions tactically.
Risk Exposure Control	Ability to mitigate downside, especially in volatile markets.

What does this mean for your investment portfolio?

Macro Economics

We continue to take a measured approach to portfolio construction with a broad-based approach in asset allocation being the key risk management tools in our toolbox. To achieve these long-term investment goals, we initially focus on macro economic research which creates the framework to formulate an active asset allocation strategy that will be changed as and when the economic conditions alter. Asset allocation uses various asset types such as equities and fixed income securities which concentrate on sector and geographical weightings around the world. When combined, this provides the foundation of our diversified investment portfolios which is the bedrock to managing investment risk. We are now layering alternative investment strategies which aim to reduce investment volatility should markets become unsteady whilst remaining invested so that investment returns are achieved should markets continue to rise.

There is no change to this overall strategy. The active index+ portfolios will continue to remain suitable for investors that want to accumulate capital over the medium to long term or those investors wanting to preserve wealth over the medium to long term, depending on your risk budget and personal circumstances.

Tactical Asset Allocation

Further amendments are being proposed to reduce AI sector exposure and replace UK gilts with money markets.

AI Sector

The heightened trade uncertainty we saw earlier this year has now settled into a form of 'new normal' across much of the global economy. However, several industries and bilateral relationships still need to negotiate a workable path forward.

What remains concerning is the sharp swing in market sentiment — from a steep decline in risk assets in the spring to record highs by the end of summer. Beneath the surface, the economic fundamentals do not paint a particularly compelling picture. Labor markets in the US are showing signs of slowing, the UK's Office for Budget Responsibility has downgraded its forecasts, and geopolitical tensions persist. The recent bull run has largely been driven by a handful of large US technology companies, particularly those involved in AI. These firms have reported strong earnings, fuelled by the AI boom. In Q2 alone, Alphabet, Amazon, Apple, Meta, and Microsoft spent over $92 billion on capital expenditures — a 68% increase year-on-year. While this reflects confidence in AI's potential, it remains unclear when these investments will translate into sustained revenue growth.

Karim Moussalem, CIO of Selwood Asset Management, recently described the situation as follows:

“The AI trade is beginning to resemble one of the great speculative manias of market history. Leadership has narrowed to a tiny cluster of mega-cap stocks, with passive index flows amplifying their weight to levels that would have been unthinkable just a few years ago... There is no denying that we are in the midst of a bubble and a total retail-driven frenzy.”

This dynamic is reminiscent of the late 1990s dot-com boom, where expectations outpaced reality. Bain & Co.’s latest Global Technology Report highlights a significant gap between projected AI demand and the revenue needed to support it. By 2030, AI companies will require around $2 trillion annually to fund computing power, yet Bain forecasts a shortfall of $800 billion. OpenAI, for example, continues to burn billions each year and does not expect to be cash-flow positive until 2029.

There are, of course, counterarguments. Oxford Economics recently noted that while tech investment as a share of GDP is high, it has remained elevated since the early 2000s. They argue that current spending is largely funded by free cash flow from profitable firms, rather than debt or equity issuance, and that valuations are less stretched than during the dot-com era. Nonetheless, the risks are clear. Market returns are highly concentrated and driven more by future expectations than present-day profits. Any negative news — in an already noisy environment — could quickly shift sentiment, as we saw earlier this year.

UK longer dated gilts

Given the current fiscal and political uncertainty in the UK, particularly in the lead-up to the Autumn Budget, we propose to reallocate longer term UK gilts into money market instruments. The UK’s public finances remain under pressure, with limited fiscal headroom and heightened sensitivity to policy announcements. Any deviation from market expectations—whether through increased spending or insufficient fiscal tightening—could trigger volatility in gilt markets, as seen in previous budget cycles.

UK gilts, especially longer-dated ones, are currently offering elevated yields, but this comes with significant duration risk and price sensitivity to fiscal developments. In contrast, money market funds provide a more stable alternative, offering competitive yields (currently around 4.1%) with minimal volatility and high liquidity. These funds invest in short-term, high-quality instruments, making them less exposed to the swings that could result from budgetary surprises or shifts in monetary policy expectations.

This approach allows for a cautious stance while awaiting greater clarity on the UK’s fiscal trajectory, with the option to reallocate once the policy outlook becomes more certain. It is a defensive, yet yield-conscious strategy aligned with prudent risk management.

Equity income

When seeking to introduce more defence into a portfolio, shifting from growth stocks to equity income strategies can offer greater stability and predictability. Growth stocks, while offering high potential returns, tend to be more volatile and sensitive to interest rate changes, economic cycles, and investor sentiment. Their valuations are often based on future earnings expectations, which can fluctuate significantly in uncertain environments. This makes them more susceptible to sharp drawdowns during market corrections or economic slowdowns.

Equity income investments, by contrast, focus on companies with strong balance sheets and a consistent track record of paying dividends. These stocks tend to be less volatile, as their returns are supported not only by capital appreciation but also by regular income. This income component can cushion downside risk and provide a more reliable return stream.

Further global diversification

Another proposed asset allocation alteration is to reduce U.S. allocation to mitigate concentration risk and enhance diversification. While the U.S. market has historically delivered strong returns, it now represents a disproportionately large share of global equity indices, which can expose investors to sector-specific and geopolitical vulnerabilities. By trimming exposure to U.S. equities, we aim to balance the portfolio more evenly across regions, reducing reliance on a single economy and increasing resilience against localised downturns or policy shifts.

At the same time, we're expanding our investment in a broader basket of global funds to capture growth opportunities in emerging and developed markets outside the U.S. Many international markets are trading at more attractive valuations and offer exposure to different economic cycles, currencies, and innovation hubs. This global approach not only enhances diversification but also positions the portfolio to benefit from long-term structural trends such as rising middle classes in Asia, green energy transitions in Europe, and technological advancements across multiple regions.

Diversification Benefit
As part of the portfolio work we have been undertaking, a key aspect was to look at ways where we can increase the diversification of the portfolio (s). This is commonly known as diversification benefit.

What is Diversification Benefit?
Diversification Benefit shows how much risk you have reduced in your investment portfolio by spreading your money across different assets.

Why Does It Matter?

- If you invest in just a few things and they all perform badly, the value of your investments can fall quickly.
- If you are confident about how the market will move, you might choose fewer investments, which lowers diversification.
- If you are unsure about the market, spreading your investments across different areas helps protect you from big losses.

Important Notes: Diversification is like insurance—it does not guarantee profits, but it helps reduce risk. A high diversification score does not mean your portfolio is "good" or will perform better.

How Is Diversification Benefit Calculated?

It is based on the current mix of investments in your portfolio. Here are the key parts:

- Current Portfolio Risk Score: This shows the overall risk of your current investments, based on how they have performed over the past 3 years.
- Weighted Risk Score of Holdings: This adds up the risk of each investment, adjusted for how much of each you own.
- Diversification Benefit: This is the difference between the two scores above. If your investments behave differently from each other (i.e. they are not all affected by the same market events), your overall risk is lower than the sum of the individual risks.

How Diversification Works

If your investments do not move in the same direction at the same time ie they are not perfectly correlated, your portfolio is more diversified. For example:

- If one investment goes down but another goes up, they balance each other out.
- The less your investments are connected, the more you reduce risk.
- So, by choosing a mix of investments that do not all react the same way to market changes, we can build a safer portfolio.

Details of our current and proposed asset allocation follows on page 11.

Portfolio Alteration Document

The purpose of this document is to provide information pertaining to your existing portfolio and the proposed new portfolio for you to keep for your records.

The information includes:

- Portfolio comparison
- Fund allocation comparisons:
    - asset
    - geography
- Portfolio risk scores and diversification benefit
- Cost differential
- Charges and fees
- Tax considerations

It should be noted that your own portfolio will differ from this generic comparison and does not reflect the movement in prices or values from the date of any previous switches.

Portfolio comparison

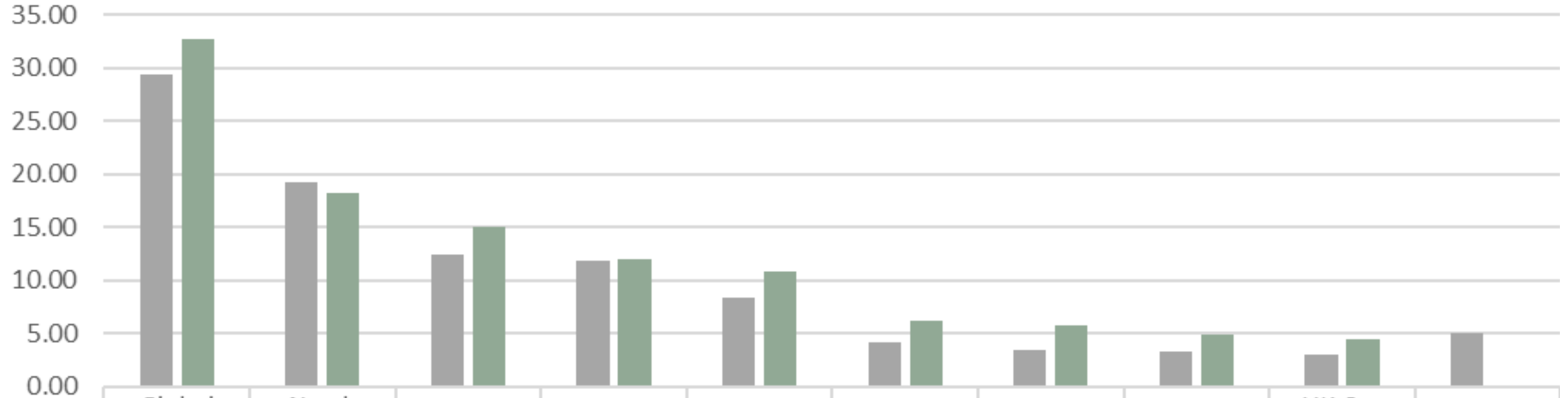
Existing Portfolio Active Index Cautious to Moderate v 4.1	% Holdings		Proposed Portfolio Active Index Cautious to Moderate v 5.0	% Holdings
RL Short Term Money Market	8.0%		RL Short Term Money Market	9.0%
iShares UK Gilts All Stocks Index	6.0%		Blackrock Corporate Bond 1 to 10 Year	10.0%
RL Short Duration Gilts	6.0%		L&G Short Dated Sterling Corporate Bond Index	10.0%
Blackrock Corporate Bond 1 to 10 Yr	6.0%		Vanguard Global Short Term Bond Index Hedged	10.0%
L&G Short Dated Sterling Corporate Bond Index	6.0%		Vanguard FTSE 100 Index	5.0%
abrdn Global Corporate Bond Screened Tracker	8.0%		Vanguard FTSE UK Equity Income	5.0%
Vanguard Global Bond Index Hedged	8.0%		Fidelity Index US P Hedged	6.0%
Vanguard Global Short-Term Bond Index Hedged	9.0%		HSBC European Index	3.0%
Vanguard FTSE UK All Share Index Unit Tst	4.0%		iShares Japan Equity Index	3.0%
Vanguard FTSE 100 Index Unit Tst	4.0%		iShares Pacific ex Japan Equity Index	3.0%
L&G UK Mid Cap Index	4.0%		L&G Global Emerging Market Index Trust	3.0%
Fidelity Index US	5.0%		Vanguard Global Equity Income	6.0%
HSBC American Index	5.0%		Jupiter Merian Global Equity Absolute Return Hedged	12.0%
HSBC European Index	3.0%		RL Diversified Asset-Backed Securities	10.0%
iShares Japan Equity Index	3.0%		WS Lancaster Absolute Return	5.0%
iShares Pacific ex Japan Equity Index	3.0%			
L&G Emerging Market Index	0.0%			
Fidelity Index World	6.0%			
L&G Global 100 Index Tst	6.0%			
Total	100.0%		Total	100.0%

Asset & geographical allocations

These are produced by our global analytical system using the data and information supplied to them by the fund managers and investment houses hence there are 'undisclosed' or 'other' categories showing based on the sometime limited information supplied to them. When carrying out our in-house analysis we do contact these investment houses directly to drill down and ascertain this information but for the purpose of this report we do, unfortunately, have to use the data supplied.

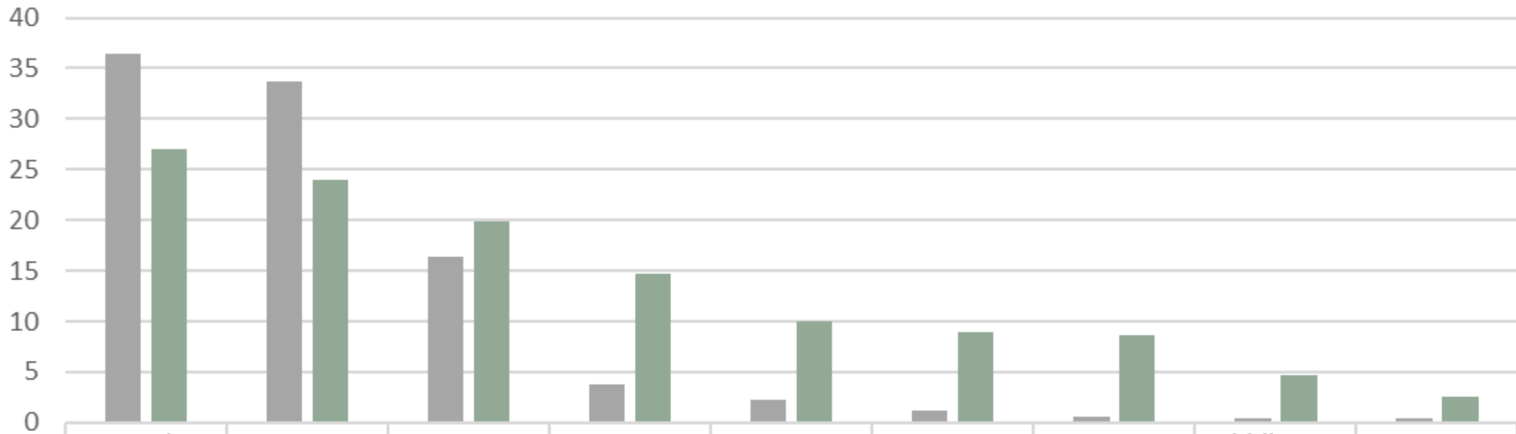
Asset Allocation

Current versus Proposed



	Global Fixed Interest	North American Equities	UK Equities	UK Gilts	Money Market	European Equities	Japenese Equities	UK Fixed Interest	UK Cor Fixed Interest	Other
Current	29.43	19.25	12.46	11.79	8.40	4.07	3.40	3.28	2.93	4.99
Proposed	32.73	18.23	15	11.93	10.87	6.17	5.69	4.88	4.49	

Geography
Current versus Proposed



	North American	UK	Europe Ex Japan	Pacific Basin	Australasia	International	Not Specfied	Middle East / Africa	Other
Current	36.39	33.75	16.4	3.83	2.33	1.19	0.57	0.36	0.48
Proposed	27.09	23.93	19.93	14.75	10	9.01	8.68	4.62	2.62

Current Proposed

Portfolio risk scores & diversification benefit

The FTSE 100 can be a useful benchmark for measuring risk as it is ‘set’ at 100. Funds and other investment vehicles can range from 1 with no upper limits.

The risk score is a measure of volatility relative to the FTSE 100, a fund that is more volatile than the FTSE 100 scores over 100 and less will score under. It enables us to understand the relative risk of the funds we are considering holding

The new portfolio has a similar risk score to the existing portfolio and therefore there is no change to your current attitude to investment risk.

Existing Active Index Cautious to Moderate Portfolio Risk Score – **48**

Proposed Active Index + Cautious to Moderate Portfolio Risk Score – **37**

Diversification Benefit **36 – High**

Cost comparison

Fund Cost Comparisons **V4.1 to V.50 +**					
	Cautious	Cautious to Moderate	Moderate	Moderate to Adventurous	Adventurous
Active Index (current)	0.14%	0.14%	0.13%	0.12%	0.11%
Active Index+ (proposed)	0.28%	0.31%	0.35%	0.34%	0.21%

Charges and fees

I can confirm that there are no exit charges or surrender penalties associated with the proposed changes. The cost of advice is covered by your existing annual service fee, meaning no additional adviser-specific fees will apply.

Tax considerations

The recommendation is being made to lock in recent gains, reduce exposure to sectors that have become stretched in valuation, and ensure your investments remain aligned with our most up to date portfolio. These changes are part of our ongoing investment management process, ensuring your holdings remain diversified and suitable for your agreed objectives and risk profile. We are also aware that there may be Capital Gains Tax (CGT) allowance changes with the future budget.

Capital Gains Tax (CGT) Implications

As part of this switch, sales within your taxable accounts will generate realised capital gains. Based on current valuations, we expect that the total gains will exceed the annual CGT allowance.

This means that a Capital Gains Tax liability will arise as a result of the transactions. The exact amount of any tax payable will depend on your individual circumstances, and this includes any other realised gains or losses this tax year and your marginal rate of income tax.

You will be responsible for reporting and paying any CGT that becomes due, either through your self-assessment tax return or HMRC's online real-time CGT reporting service. If you are unsure about your personal tax position, you should seek guidance from your accountant or tax adviser.

While tax is always an important consideration, our advice remains investment led. We believe that maintaining alignment with our portfolios provides the best opportunity to meet your long-term investment objectives. CGT should not be the deciding factor where the investment rationale remains strong.

Other Important Points

- The exact timing of transactions will depend on when the product provider executes the trades.
- There will typically be a delay between the date you sign any instruction requesting the sale or purchase of units or shares and the sale or purchase, itself. In this period, unit/share price changes will increase or decrease the value of your investment. We cannot guarantee when the product provider will receive and act on your instruction. The prices or terms available will be those pertaining when the transaction is undertaken.
- The CGT rates and allowances applied will be those in force at the time of the transaction.
- Our advice is based on our understanding of current legislation and HM Revenue and Customs (HMRC) practice. At a future date HMRC may make changes to either legislation and/or their interpretation of the legislation which could affect the tax treatment of investment contracts.

Why is this document important?

We are unable to make the changes to your portfolio(s) without your say so.

It is therefore important that you review this document and ensure that you fully understand the changes and are happy to proceed.

What do I need to do?

In order to make the changes to your portfolio(s) please confirm by clicking on the link below.

If you do not fully understand these changes or if you are concerned about the level of risk you are currently taking, please get in touch and we will arrange a call.

If you are happy to proceed and fully understand the changes being made to your portfolio please:

Click to proceed

I look forward to hearing from you soon.
Richard Stott

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