ASTUTE
INVESTMENT MANAGEMENT

VT Astute Funds

Quarterly Commentary

Q4 2023

Introduction

Thank you for taking the time to read our Q4 commentary. The final quarter of the year proved to be much more positive than the preceding three and ended the year on an optimistic note. We should always treat so called “Santa rallies” with some skepticism, due to low liquidity and thin trading. However, the fundamentals of impending rate cuts and stronger than expected economies supports that optimism continuing through the year ahead. We don’t expect it to be smooth sailing by any means, but a more “normal” risk environment is where our disciplined and patient approach should deliver the most consistent returns to investors.

As we end the year with a bang, our CIO letter this quarter looks at New Year’s resolutions and why expectation management and discipline is the key to achieving objectives.

In our Astute Overview section, we take our regular poll of team members and ask which key area they will be watching in 2024 and why.

Our regular Astute Perspective shows our current conviction views, while Astute Positioning covers how those views translate into the portfolios, and what changes we have made in the past three months.

Finally, Astute Observations highlights some of the more interesting research, data, or charts we have encountered recently with a few short (and hopefully enlightening) comments.

As always, we take a long-term approach to investing our clients’ assets, but success is a journey, not a destination, and the short-term views expressed herein are aimed at managing risk and making your investment journey as smooth as possible. By taking a risk-adjusted approach to your investments, we aim to deliver reliable growth in line with our stated risk profiles and provide you, and your financial planner, with the consistency and security to plan for your long-term financial future. Thank you for your continued support. If you have any further questions or require any additional information, please do not hesitate to contact your usual financial planner.

Fund Management Team

Scott Osborne
Chief Investment Officer

Hannah Owen
Head of Group Communications

Nathan Chan
Senior Investment Analyst

Toby Hulse
Investment Analyst

New Year Resolutions

Happy New Year and welcome to 2024. As social creatures, we enjoy celebrating the change of a single digit on our calendars and marking it as a fresh start. Nothing IS different, and yet human behaviour creates consistent and observable patterns which create change. There's no fundamental astrological reason for it, but our commitment to it becomes a self-fulfilling prophecy. While the emergence of a new year is a fitting time to reflect on your goals, the most meaningful resolutions should not bound by calendar years – a sentiment which is also true for setting realistic investment return targets.

While 2023 was not an easy year for investors by any means - there was significant volatility throughout the year - it ended in a positive manner. The VT Astute funds generated 6.4%, 7.6% and 10.2% respectively for the Conservative, Balanced and Growth strategies, and UK consumer prices increased by 4.0% over the same period. There have been plenty of times in the last few years when aiming to beat rampant inflation has seemed like that unrealistic New Year’s resolution. However, last year shows that commitment to a well-considered and disciplined process can deliver on stated objectives. I say this as somebody who has remained tee-total for well over a decade.

Beating our benchmarks in 2023 was clearly positive, but I have mentioned in previous letters that due to the post pandemic period, inflation has had a significant head start. Last year was the start of catching up and ensuring we deliver returns ahead of inflation over the time horizons we recommend. The “Santa rally” at the end of 2023 was triggered by optimism that interest rates will come down this year as inflation returns close to target. We believe markets might have got a little bit over excited about when the first of these rate cuts will occur, but we remain very confident that they will happen this year in most western economies. It will likely be a bit of a rollercoaster in coming months, but the inflation trend is down, and we could see numbers below 3% as soon as April in the UK, at which point the current high rate of interest will be unnecessarily restrictive and the cutting cycle can begin.

If this all sounds overtly positive, it is. 2024 should be the year we put the inflation debate to bed, unfortunately that doesn’t mean we don’t have other things to worry about. As we always do in January, the team has selected one topic each that we think will define markets in the year ahead: you can read these in our Astute Overview. With recession risk, an abundance of politics, and the continued unknown effects of the AI revolution on the radar, the path of interest rates is just one potential source of volatility. This is without mentioning the continued active conflicts in Ukraine and Gaza and the recent escalation of tension in the Red Sea, following Houthi attacks on the crucial shipping corridor.

As always, the key to navigating these “interesting times” as an investor is patience and discipline. Our research process continues to identify exciting opportunities, and our active managers in many areas are more bullish on their prospects now than at any time since we launched in 2020. Balancing this optimism with a healthy dose of scepticism and portfolio insurance by way of high-quality bonds, keeps our positioning flexible and ready to respond to changes as they develop over the year.

In short, things aren’t getting any easier but the risk and opportunities ahead, we hope, are the conventional ones that portfolio diversification and disciplined risk management is capable of mitigating. In our last letter we talked about how the two-year period from the last quarter of 2021 to the third quarter of 2023 was like a financial crisis sized bear market for bonds. The rally we saw at the end of last year shows that when markets bottom, the bounce-back can be swift, and our relative positivity about the future was rewarded. This is still the dynamic we see dominating the year ahead. It won’t be an easy ride, but we have the tools we need to smooth the road as much as possible.

Scott Osborne PhD CFA
Chief Investment Officer

Astute Overview

Horizon Scanning: What We're Watching in 2024

Scott – Economy & Recession: The Reports of my Death are Greatly Exaggerated

I am once again predicting that markets will worry about something that they really shouldn't bother worrying about - recession risk. The record pace of interest rate rises has clearly put significant pressure on economies. As the cost of money increases, governments, companies, and consumers find it harder to borrow and spend, and this leads to slowing growth in the economy. So far, the strength of the underlying economy has confounded predictions of crunching recessions, growing despite the restrictive monetary policy. Some of this is almost certainly due in part to a rundown of accumulated pandemic savings, helping to maintain spending even as prices rise. This can't last however, and most economists agree that "excess" savings have run dry.

Another key aspect is that borrowing costs will rise as old debt is replaced with new, a topic we have discussed in the past in the context of UK mortgages. This means that even if rates stay where they are, monetary policy will get tighter as more and more rates adjust. This is why we think growth might slow more substantially and why we might see "technical "recessions (two quarters of negative GDP growth) for Europe and the UK at some point later this year. Having said that, we aren't particularly worried if and when these recessions occur, because rates will likely be coming down already and markets will look forward to the "normal" environment of 2025. So, whilst I predict some market bumps, and plenty of economic obituaries, I expect recessions to be short and shallow. An inevitable cost of taming inflation but not a persistent downturn that could seriously derail markets.

Hannah - Elections: Breaking up with Your PM and the Hot Global Affairs to Watch in 2024

In 2024, the year of the dragon, there is potential for huge global political shift. Almost half of the world's adult population will be able to cast a vote in national elections this year, with countries making up over 60% of the world's economic output holding elections in 2024. Whilst some regions have a shoo-in, and elections are literally and figuratively a box ticking exercise, for others, incumbent leaders face the very real worry that their country could oust them from their post.

To name a few notable elections, we are fresh out of the Taiwanese elections resulting in a third presidential term secured for the DPP. In addition to European parliamentary elections, elections within Europe this year could see a shift to the political shape of the continent. Arguably the election that could have the biggest influence will be in the US - after all, when America sneezes, the world catches cold. In the UK, the spring statement gives the Conservative government a last chance to either pull an attractive rabbit out of the hat or bolster their credibility by doing little and maintaining a controlled, steady ship ahead of a general election. At the time of writing, the next election still hasn't been called, we only know that it must take place before 28th January 2025.

When looking back at history, one thing is for certain – those in power have huge influence over the global economy, the development of conflict, and policy. With a change in leader, regional alliances break and new ones form. The world won't look the same in 12 months' time, but we'll be here to watch the transformation.

Nathan – Interest Rates: The Folly of Crowds

The Wisdom of Crowds is a concept that suggests that diverse groups of people, when aggregated, can make more accurate predictions than any single expert. However, the markets' ability to predict the trajectory of interest rates so far has been questionable, and whilst many have grown tired of the topic, rates will unfortunately remain crucial in determining the likelihood of a soft or hard landing. One of the main reasons why 2023 was so volatile, particularly for long-term bonds, was because of the phrase "data dependent" used by policymakers. Investors interpreted this quite literally, often relying on a single data point to make projections far into the future. The US Federal Reserve (Fed) meeting in December exemplified this behaviour, with Chairman Powell's unexpectedly dovish conference sparking rate cut complacency. This deviation from the apparent consensus among his colleagues raised questions about his true intentions, are there political motivations at play in a huge election year?

With economic data remaining relatively strong, and the possibility of fiscal policy loosening during an election year, the Fed may not see this as an opportune moment to cut rates, even though some may argue that short-term trends show inflation already at 2%. While slowing growth might negatively impact fundamentals, especially in the 2nd half of the year as the remaining rate hikes start to take effect, unless the economy transitions into a hard landing, the rate cut enthusiasm should be corrected somewhat by resilient economic data. We still foresee rate cuts in the latter half of the year as earnings and growth gradually decline. As for the Bank of England and European Central Bank, they face their own challenges, with higher inflation in the UK and strikingly weak data in Europe. However, both central banks may largely be constrained by the timing of the Fed's rate cuts, as going first could weaken their currencies and lead to imported higher inflation.

Toby – AI is Growing Up: What to Expect in 2024

As artificial intelligence (AI) continues its evolution in 2024, driven by improvements in computation and the demand for advanced hardware, it retains its dominance as a primary theme for 2024, at the forefront of investors' minds. Having caught the public's attention in 2023 through applications such as ChatGPT, generative AI is set to continue growing. According to iShares, 70% of executives plan to increase AI resourcing in 2024, driven by cost-cutting efforts and the integration of AI into existing offerings. A concern for investors is that AI advancement could outpace regulatory efforts. Self-regulation is becoming more important (given the lag in government regulations), and new AI-related roles may emerge, such as AI ethicists, curators, and legal advisors to reflect this change. Initially, the technology focused on encoding rules and facts into software - now a crucial aspect of AI progress - has moved onto scaling the processing power. Increased computing power, exemplified by NVIDIA's chipsets (why the company dominated in 2023), is integral to machine learning at scale and needed for the increased complexity we expect to see.

The intelligence in AI is heavily reliant on the data it is linked to, therefore, companies with access to high quality data in abundance gain advantages in AI development. AI has the potential to create long-term value, and companies that focus on improving efficiency, reducing costs, and enhancing decision-making processes will have a competitive edge. Therefore, companies that are solely focused on developing AI or AI models without addressing real-world problems might not be the best investment choices. We look to our active equity managers to sort out the winners and losers in this rapidly shifting arena.

Source: iShares

Astute Perspective

ASTUTE INVESTMENT MANAGEMENT LTD

UK – Neutral

UK markets lacking support to drive a persistent rally

Prefer smaller companies with growth opportunities

Underlying economic growth challenged but improving

N. America - Neutral

Rate cuts coming but probably in Q2

Fed remains worried about labour markets

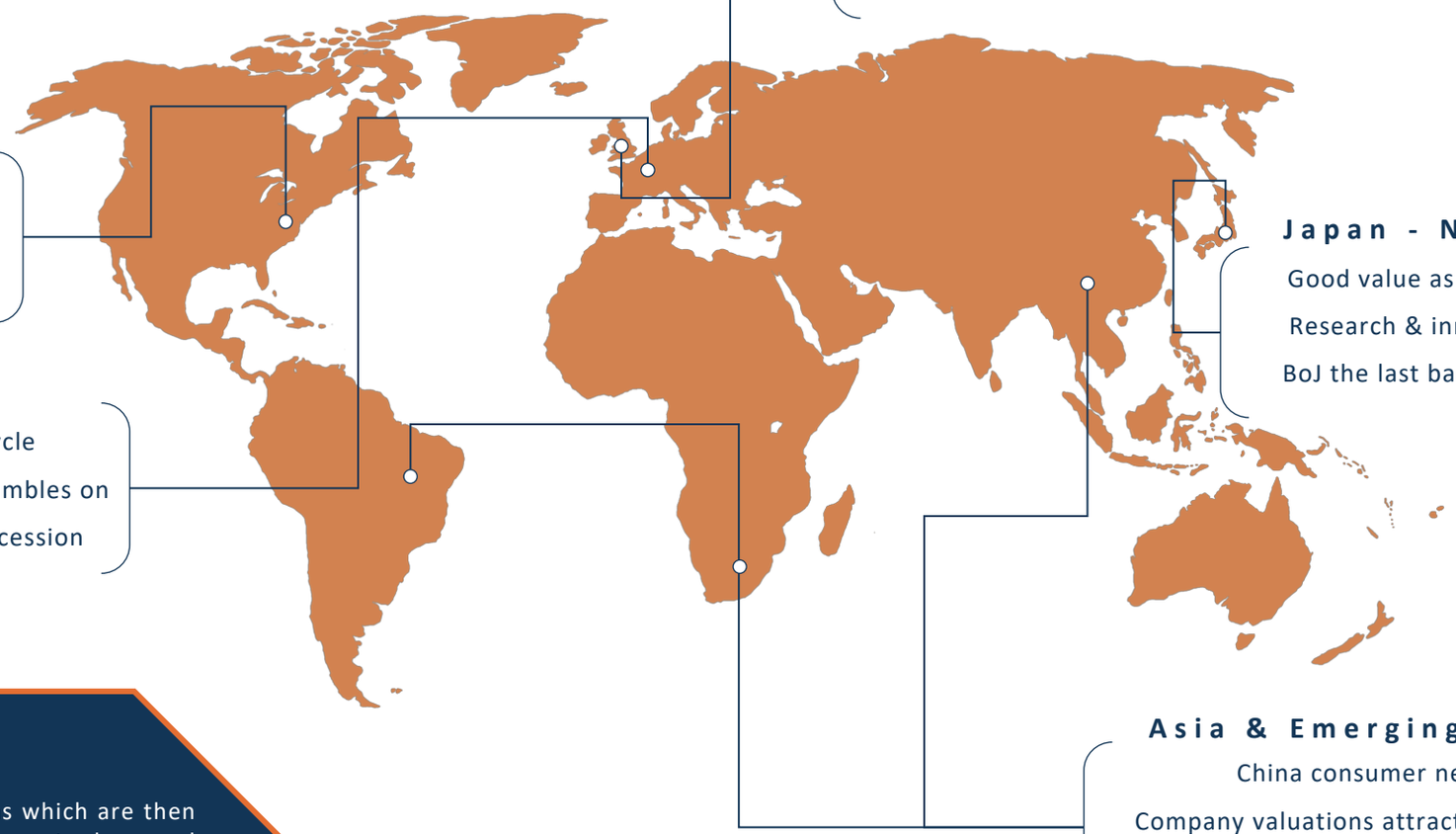
Recession risk has faded but not completely

Europe - Neutral

ECB playing catch up in rate hiking cycle

Energy crisis has passed but Ukraine war rumbles on

Forward indicators now point towards recession



Japan - Neutral/Overweight

Good value as corporate nationalism fades

Research & innovation remains strong suit

BoJ the last bank standing with loose policy

Asia & Emerging - Overweight

China consumer negativity continues

Company valuations attractive vs western equivalents

Geo-politics an increasing risk as election cycles begin

Conviction Views

A key part of our process is building conviction ideas which are then expressed across each of the portfolios. While asset class and regional views are an important input into this process, the opinions outlined below will be the driving force behind any potential future returns.

1. Focus on Quality

- Economic rebound will broaden growth opportunities, benefiting cyclical sectors most.
- Risks arising from inflation and geopolitics necessitate a refocus on quality, in both expensive secular growers and cyclical value rebounders.

2. Overweight Technology

- Technological revolution will continue, lean into disruptive areas, the strong get stronger.
- Look beyond current global leaders and use specialists to stay ahead of the curve.

3. Invest Sustainably

- ESG will become the default option, and the market will shift accordingly.
- If sustainable investing is the future, invest with those who have ESG way into their past.

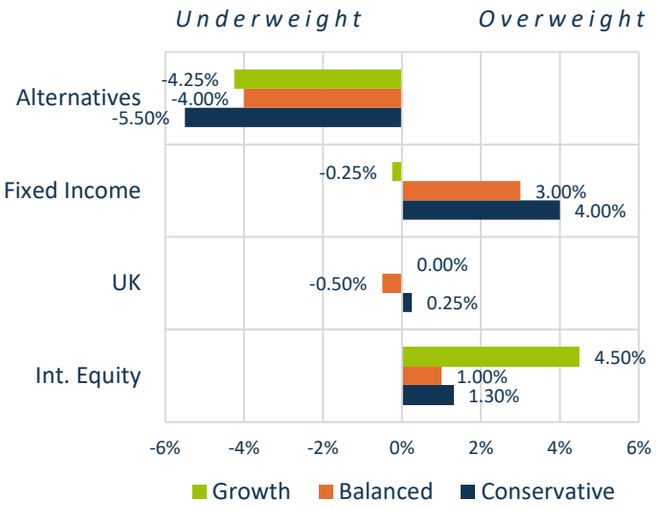
Asset Class Views

Fixed Income	Negative					Positive
Sovereign Bonds					■	
Corporate Bonds				■		
High-yield bonds				■		
EM Debt				■		
Alternatives	**Negative**					**Positive**
		■				

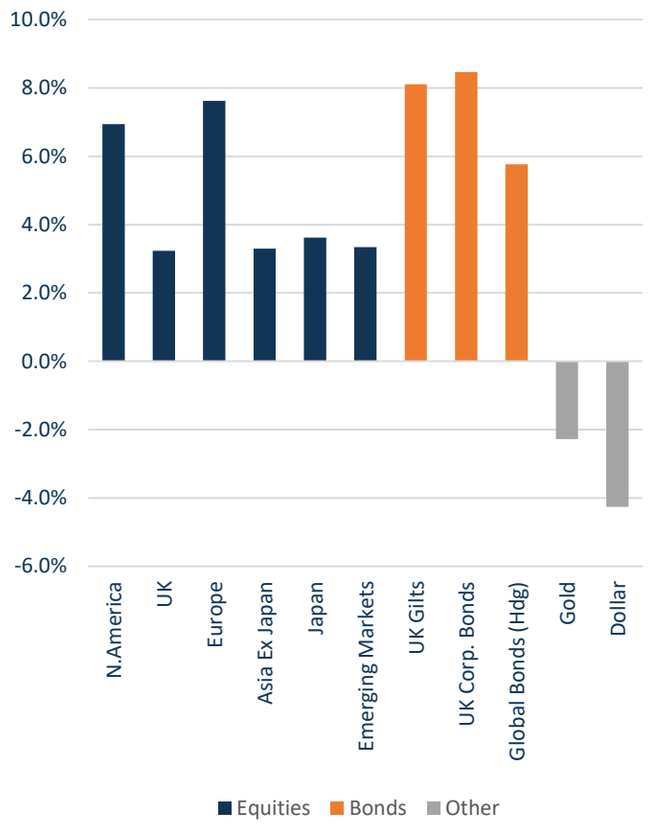
Equities	Negative					Positive
UK				■		
Europe				■		
Asia & Emerging				■	■	
Japan				■	■	
US				■		

Astute Positioning

Tactical Asset Allocation[1]



Asset Class Returns[2]



Fund Activity

New Purchase	UK Gilt 4.25% 12/07/2040	Con
	Lazard Japanese Strategic Equity	Con / Bal / Gro
	L&G Russell 2000 US Small Cap	Bal / Gro
	iShares S&P 500 Equal Weight	Bal / Gro
	Natixis TOPIX Digital Synthetic	Con / Bal / Gro
	Man GLG Dynamic Income	Bal
	Barclays FTSE 100 Booster (136.50%)	Con / Bal / Gro
Top Up	iShares MSCI EM SRI ETF	Con / Bal / Gro
Trim	M&G UK Inflation Linked Corporate Bond	Con
	Jupiter Japan Income	Con / Bal / Gro
	Robeco QI Glbl Multi-Factor Credits	Bal
	Blackrock European Absolute Alpha	Bal / Gro
	Protea ECO Advs ESG Absolute Return	Con / Bal
Sold	Granahan US SMID Select	Bal / Gro
	SPDR MSCI USA Small Cap Value Weighted	Bal / Gro
	Allianz China A-Shares Equity	Con / Bal / Gro
	VT Gravis Clean Energy Income	Con
	Blackrock European Absolute Alpha	Gro

The final quarter of 2023 marked a strong finish to the year, propelled by the dovish stance from Chairman Powell in December. The growing anticipation of imminent rate cuts by the central bank in 2024 fueled a surge in equity markets, creating an “everything rally” that other committee members failed to dispel during their attempts to temper market expectations. While this positively impacted the funds’ positioning, we believe investors may have got somewhat ahead of themselves in expecting rate cuts as early as March; the potential for disappointment has increased.

With equity markets performing well, and unemployment still at historic lows despite the aggressive rate hiking cycle over the past 2 years, it does feel like a rather unusual time to be sharply cutting interest rates. Moreover, with fiscal policy expected to ease into an election year and animal spirits on the rise, the strength in economic data could well carry into the first half of 2024. While we don’t foresee a significant downturn in economic growth, a balanced approach to portfolio risk seems more prudent given the note of optimism markets ended the year on, with the aim of being able to generate returns without relying solely on further equity gains.

Activity this quarter can be grouped into a few different themes. The first involved selling down underperforming managers, such as Granahan, who continued to perform poorly from a challenging earnings season. We retain our conviction in the small to mid-cap space, as valuations are still heavily discounted, and therefore reallocated the funds into a Russell 2000 tracker with a quality overlay to filter out the unprofitable companies in the universe. Allianz China was also sold as the combination of managerial changes, poor performance, and declining conviction in the region led us to lose confidence in the fund’s ability to outperform. We redirected the capital into a quality emerging markets (EM) tracker, given the ample opportunities across broader EM.

The second theme focused on building conviction in longer duration and higher credit risk fixed income products, seizing opportunities as the dawning reality that rates would be higher for longer caused global yields to spike in October. This gave us the chance to secure a very high 4.5% yield on a 2040 UK Government bond, which also holds the ability to produce significant capital upside should interest rates decline faster than expected. This was funded by trimming back the M&G UK Inflation linked fund, an excellent performer for us but where we believe the best environment for this fund has passed. Additionally, following on from our previous trades, we continued to build our position in a higher yield product, Man GLG Dynamic Income, at the expense of the more defensive Robeco, as the market is still overestimating default rates.

The third theme was introducing a spread of new structured products to enhance the risk/return profile of the portfolio. Recognising the potential overstretching of valuations in the mega-cap stocks that have driven returns across global markets, the prospect of a consolidation in price levels seems evermore likely. With this in mind, we introduced two new products into the portfolio, one linked to the FTSE and the other the TOPIX, which should help generate decent returns if markets were to trade sideways or fall slightly.

The final theme was aimed at balancing out some factor risk by first reducing exposure to MSCI USA Small Cap Value Weighted in favour of iShares S&P 500 Equal Weighted. This move increased our exposure to mid-cap core, the valuation opportunity remains attractive. In our Japanese component, Jupiter Japan has performed in-line with the broader market but is relatively expensive for the returns it delivers and therefore to maximise returns per cost, we shifted capital towards a new concentrated core value fund from Lazard, which offers a discounted seed share class and a more value orientated approach.

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 31/12/2023. Past performance is not a reliable indicator of future results.

[1] Relative positioning is expressed versus Astute’s long-term strategic weights. [2] Total returns in GBP. Broad market indices are used to represent the performance of different regions over the period 30/09/2023 to 31/12/2023.

VT Astute

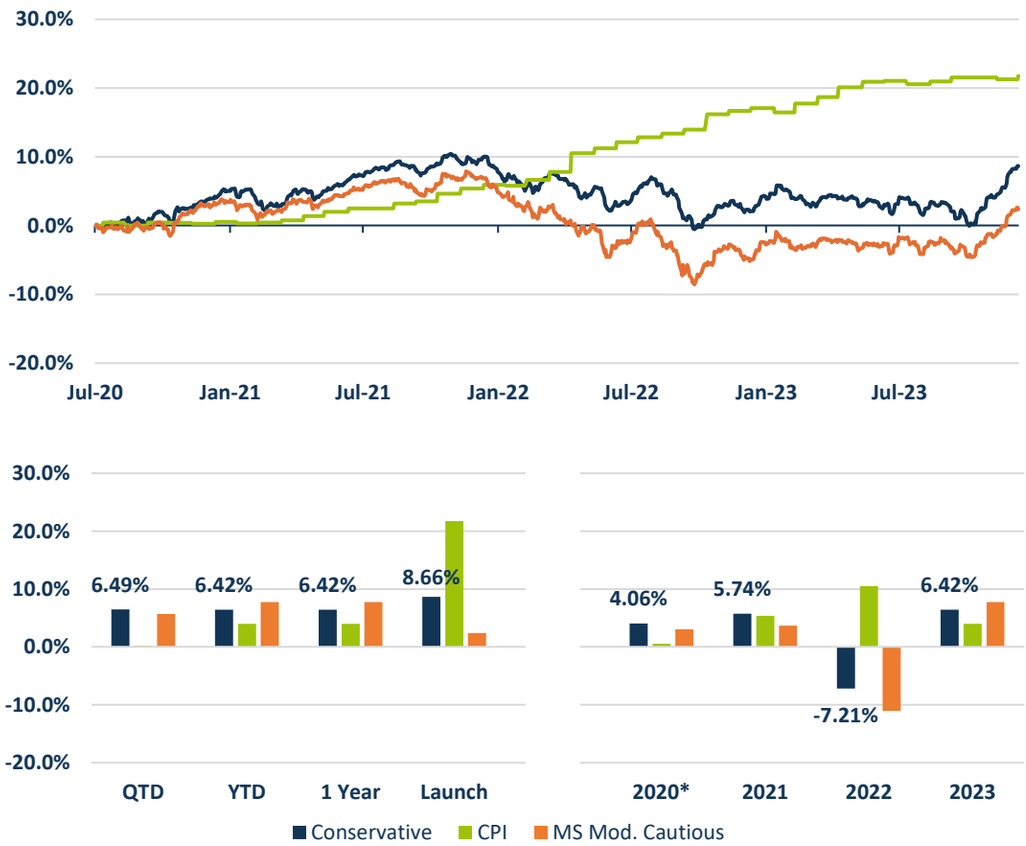
Conservative

The Conservative fund excelled this quarter, surpassing both its market comparator and inflation, driven mainly by our overweight to fixed income duration and higher beta equity holdings. Growth-sensitive equities posted particularly strong returns into the end of the year whilst our stock selection in global bonds also helped.

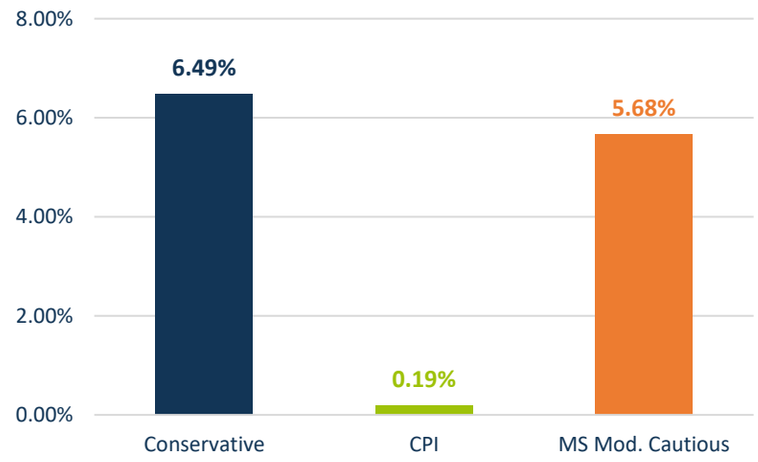
In Q4 2023, both bonds and equities exhibited robust gains buoyed by a dovish pivot from Fed Chairman Jerome Powell. This shift fuelled market expectations of imminent rate cuts in 2024, in a rather aggressive cutting cycle and initiated a strong rally in markets. Consequently, the fund's growth-sensitive names and long duration fixed income assets i.e. those with a higher sensitivity to changes in interest rates, surged higher. While our Alternatives also posted positive absolute returns, after a rebound in December, this was only enough to offset earlier losses in the quarter.

Against the backdrop of declining yields, it's unsurprising to see the standout performers include iShares Core UK Gilts and iShares $ Treasury Bond 20+ years, both of which delivered very impressive gains. Additionally, Man GLG Sterling Corporate Bond and L&G ESG Corporate Bond were also strong contributors to performance benefitting from the contraction in corporate credit spreads.

Performance[1]



Q4 Returns[2]



Asset Classes

Asset class	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	3.55%	1.39%	+0.04%
Government	26.93%	8.85%	+2.30%
Credit	24.68%	6.74%	+1.82%
UK	4.06%	5.51%	+0.19%
N. America	10.13%	9.75%	+0.92%
Europe	3.05%	11.09%	+0.29%
Japan	2.03%	2.00%	+0.07%
Asia & Emerging	4.54%	3.79%	+0.16%
Thematic	3.04%	7.82%	+0.24%
Alternatives	17.99%	4.35%	+0.45%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
iShares Core UK Gilts ETF GBP	16.02%	9.18%	+1.40%
iShares $ Treasury Bd 20+y ETF GBP	3.00%	14.31%	+0.42%
Man GLG Sterling Corp Bond	4.06%	10.79%	+0.42%
L&G ESG GBP Corporate Bond	4.58%	8.73%	+0.37%
Federated Hermes US Smid Eq GBP Hedged	2.92%	12.11%	+0.37%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 31/12/2023. Past performance is not a reliable indicator of future results. All performance is shown net of ongoing charges. Morningstar Target Allocation indices are used as performance comparators. [1] Data for the period 20/07/2020 to the 31/12/2023. [2] Data for the period 30/09/2023 to the 31/12/2023. * 2020 data covers the period 20/07/2020 to 31/12/2020. Contribution to return may not sum to the total return due to rounding and averaging.

VT Astute

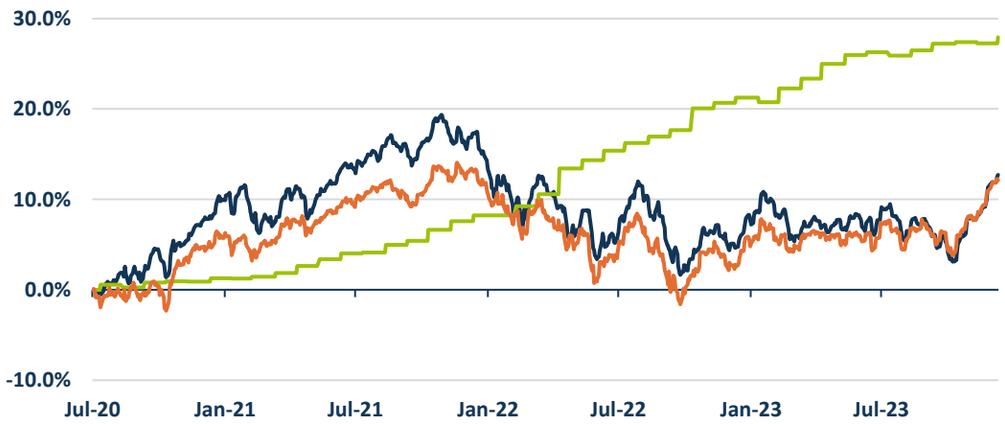
Balanced

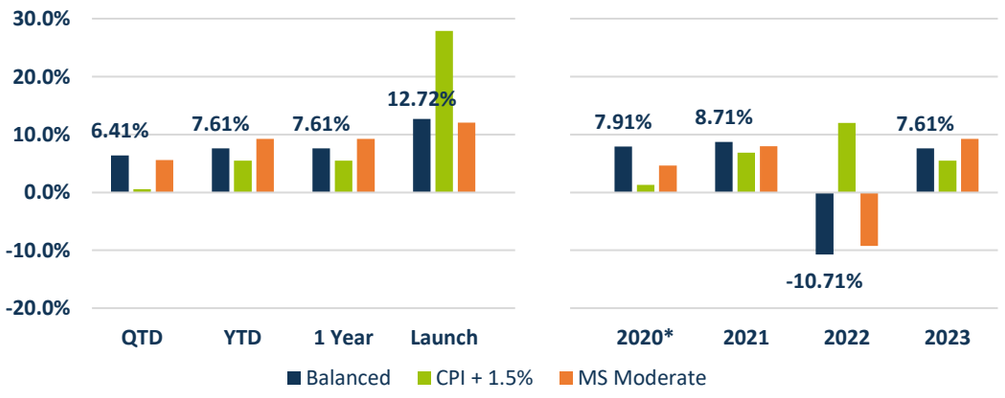
Over the quarter, the Balanced fund outperformed its market comparator and significantly outpaced inflation. Strong gains were generated across the fund, particularly in government bonds and more cyclically exposed names, however this was partially offset by an overweight to diversifiers and cash.

Both bonds and equities rallied into the end of the year as a dovish pivot from Fed Chairman Jerome Powell led investors to price in a very aggressive rate cutting cycle. This caused a strong rally in markets which was beneficial for the fund's growth-sensitive names and long duration fixed income assets i.e. those with a higher sensitivity to changes in interest rates. While our Alternatives also posted positive absolute returns, after a rebound in December, this was only enough to offset earlier losses in the quarter.

With global yields falling sharply, the top performers included our sovereign fixed income holdings, particularly our longer duration names such as iShares Core UK Gilts and iShares $ Treasury Bond 20+ years. Other positive contributors were within our US component with iShares Core S&P 500 and Hermes US SMID delivering the better return as currency hedging helped to offset the drag from a weakening dollar.

Performance[1]





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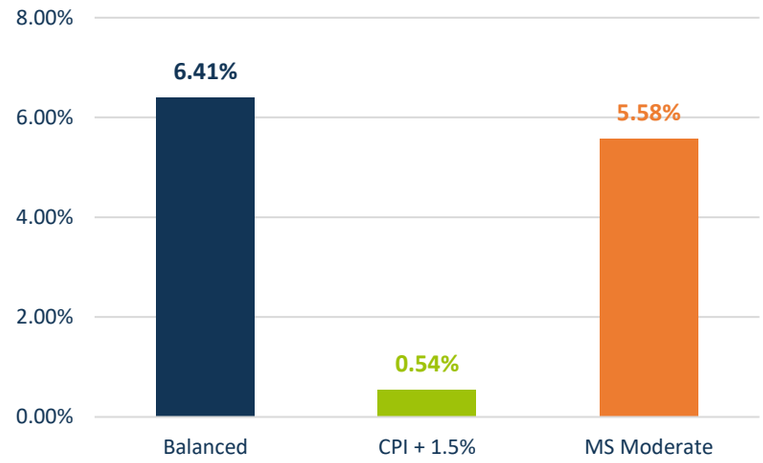


Asset Classes

Asset class	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	3.49%	1.39%	+0.04%
Government	14.07%	9.63%	+1.27%
Credit	16.85%	6.52%	+1.16%
UK	6.95%	5.26%	+0.32%
N. America	21.76%	9.19%	+1.92%
Europe	5.70%	12.95%	+0.59%
Japan	4.46%	0.98%	+0.10%
Asia & Emerging	8.67%	3.21%	+0.26%
Thematic	3.56%	8.20%	+0.29%
Alternatives	14.50%	5.50%	+0.45%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
iShares Core UK Gilts ETF GBP	10.04%	9.18%	+0.88%
L&G US Equity ETF	9.12%	6.36%	+0.67%
iShares Core S&P 500 ETF GBP Hedged	4.43%	11.22%	+0.51%
iShares $ Treasury Bd 20+y ETF GBP	3.01%	14.31%	+0.42%
Federated Hermes US Smid Eq GBP Hedged	2.96%	12.11%	+0.39%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 31/12/2023. Past performance is not a reliable indicator of future results. All performance is shown net of ongoing charges. Morningstar Target Allocation indices are used as performance comparators. [1] Data for the period 20/07/2020 to the 31/12/2023. [2] Data for the period 30/09/2023 to the 31/12/2023. * 2020 data covers the period 20/07/2020 to 31/12/2020. Contribution to return may not sum to the total return due to rounding and averaging.

VT Astute

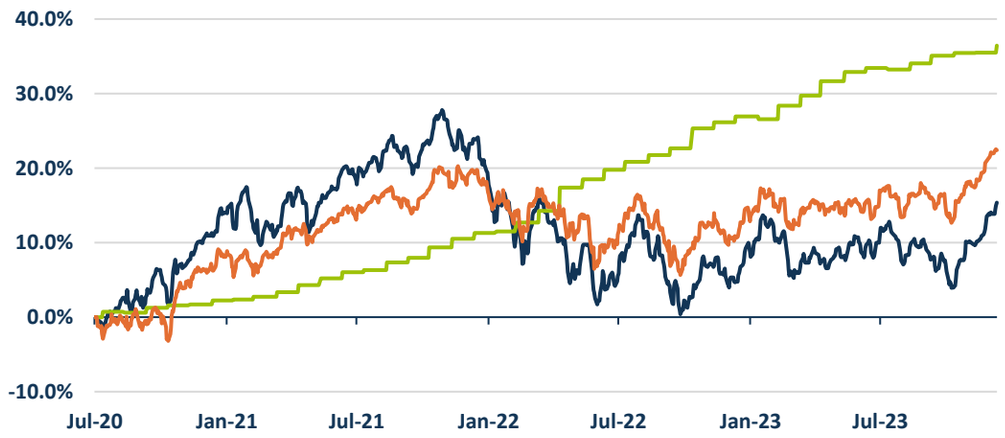
Growth

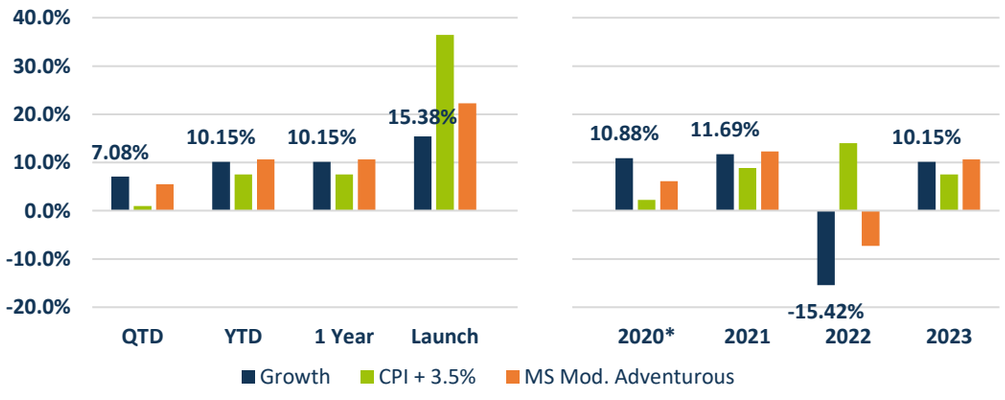
With the rise in equity markets, the Growth fund outperformed its market comparator this quarter whilst also outpacing inflation. All components performed well in absolute and relative terms, with our large overweight to cyclically exposed names particularly lower down in market cap delivering the most gains.

In the final quarter of 2023, both bonds and equity generated strong returns, propelled by a dovish stance from Fed Chairman Jerome Powell. This shift fuelled market expectations of imminent rate cuts in 2024 and consequently, growth-sensitive equities and long duration fixed income assets i.e. those with a higher sensitivity to changes in interest rates, surged higher. In the Alternatives bucket, our bio-tech specialist Syncona delivered disappointing returns but was more than offset by the solid returns from our structured products.

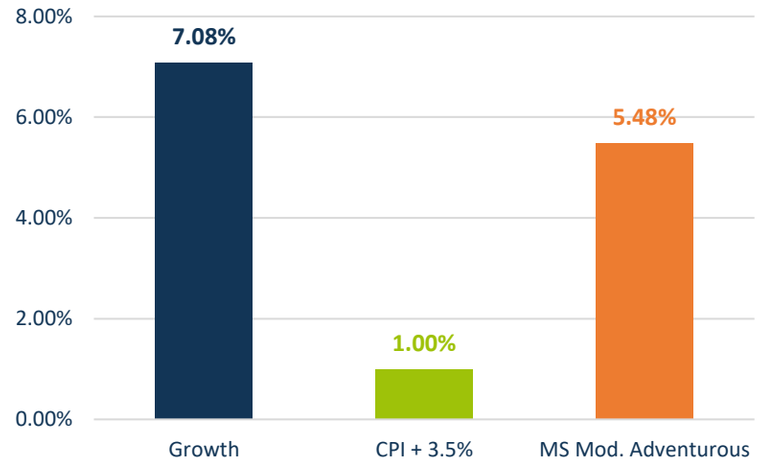
Most of the standout performers have been concentrated around our US equity holdings who all posted very solid gains, particularly our sterling hedged positions which escaped the drag of a depreciating dollar. Other contributors include Miton European which rallied strongly as prices started to reflect robust fundamentals, and M&G Global Listed which rebounded well as lower yields softened the impact on defensive cash flows.

Performance[1]





Q4 Returns[2]



Asset Classes

Asset class	Avg Weight	Return	Contribution to Portfolio Return
Cash & Equivalents	2.36%	0.00%	0.00%
Government	0.00%	0.00%	0.00%
Credit	7.45%	8.99%	+0.64%
UK	11.65%	5.51%	+0.58%
N. America	34.55%	9.64%	+3.20%
Europe	10.47%	12.97%	+1.13%
Japan	6.79%	1.36%	+0.19%
Asia & Emerging	13.84%	3.04%	+0.42%
Thematic	7.63%	8.52%	+0.68%
Alternatives	5.26%	6.82%	+0.23%

Top Funds

Fund Name	Avg Weight	Return	Contribution to Portfolio Return
iShares Core S&P 500 ETF GBP Hedged	8.01%	11.22%	+0.93%
L&G US Equity ETF	13.14%	6.36%	+0.93%
Premier Miton European Opps	4.64%	16.13%	+0.68%
Federated Hermes US Smid Eq GBP Hedged	5.08%	12.11%	+0.66%
M&G Global Listed Infrastructure	4.62%	8.26%	+0.48%

Sources: Refinitiv Lipper for Investment Management & Astute Investment Management as at 31/12/2023. Past performance is not a reliable indicator of future results. All performance is shown net of ongoing charges. Morningstar Target Allocation indices are used as performance comparators. [1] Data for the period 20/07/2020 to the 31/12/2023. [2] Data for the period 30/09/2023 to the 31/12/2023. * 2020 data covers the period 20/07/2020 to 31/12/2020. Contribution to return may not sum to the total return due to rounding and averaging.

Astute Observations

40 Years of the 'Footsie'!

The FTSE 100, the primary stock market index in the UK, recently celebrated its 40th anniversary. Launched on January 3, 1984, the index was designed to act as a barometer for the UK's equity market and broader economy. Comprising the 100 largest companies listed on the London Stock Exchange, it now holds a combined value of around £1.9 trillion. Some veteran constituents, including Barclays, Lloyds, Sainsbury's, Tesco and British American Tobacco, have remained part of the FTSE 100 since its inception, others have not fared so well.

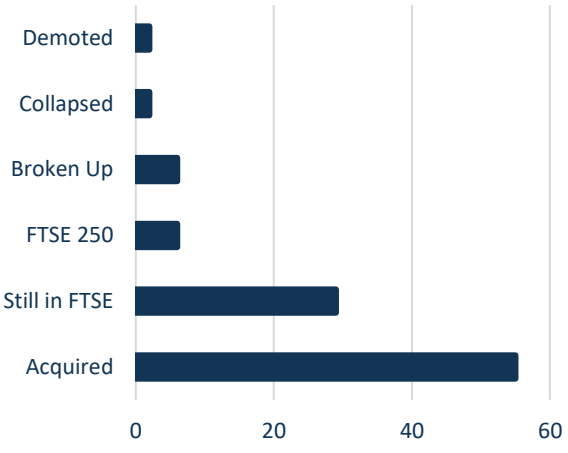
There has been plenty of criticism of the UK market, as growth has lagged other regional indices since around the year 2000. Concerns about London's market competitiveness have been growing, with some international companies switching their listings to access better pools of capital and even some domestic companies like Tui considering cancelling their UK listing. It seems membership of the FTSE 100 doesn't hold the prestige it once did. The traditionally strong areas such as natural resources and mining have had some stellar individual years but begin to look like dinosaurs in markets dominated by the future growth potential of technology and software.

Having said all that, it trades at a 45% discount to the S&P 500 based on forward earnings, mostly due to the difference in tech exposure. It begs the question, how cheap is cheap enough and what catalyst would be needed to generate more interest from global investors?

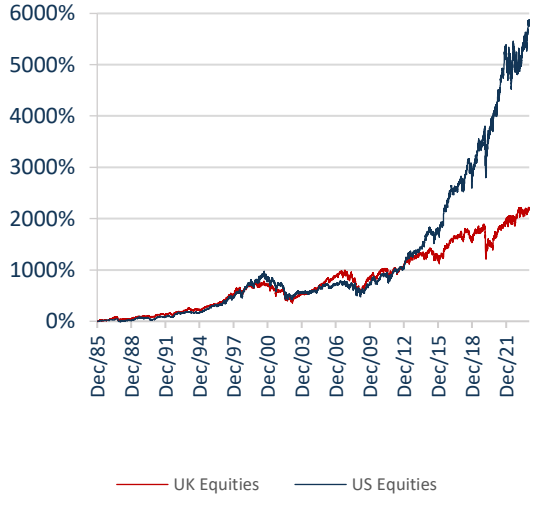
No silver bullet can swiftly address the persistent malaise of the UK market, but the 40th birthday should prompt reflection. Change will be needed to replicate past success in the coming decades and effectively capture the UK's ability to complete in global markets.

Sources: FT

The Original FTSE 100 Members Fate



% Growth of UK vs US Equities



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