

# Quarterly Investment Report

## Defensive



# FlyingColours Investment

# Flying Colours

## Discretionary Managed Portfolio Service

### Q3 2025

# Introduction

## Welcome to the Quarterly Investment Report for Q3 2025.

The third quarter of 2025 continued the recovery that began earlier in the year, with markets showing resilience despite ongoing global uncertainties. Investor confidence was supported by sustained interest in AI-linked stocks, further interest rate adjustments, and continued strength in sectors such as real estate and natural resources.

While the geopolitical environment remains unstable, we believe that adhering to sound investment fundamentals is the best way to navigate any sharp market reactions. Our focus remains on long-term thinking, prudent risk management, and our commitment to delivering well-managed, risk-adjusted returns for our clients.

In this report, you'll find:

- **Market Review of Q3:** An overview of the quarter's market performance.
- **Asset Selection and Portfolio Review:** Insights into the factors guiding our investment decisions this quarter.
- **Portfolio Performance Summary and Breakdown:** Key performance metrics and analysis.

You may notice that our portfolio performance presentation continues to reflect the changes made to our Discretionary Model Portfolio Service (DMPS) earlier this year. Our modular approach, operating through two Open-Ended Investment Companies (OEICs) by our co-manufacturing partnership and joint investment with Fidelity, is now further enhanced.

Our new investment portfolio structure gives us greater control and flexibility. We can now provide a full breakdown of each position, as well as detailed asset and geographical allocation for every portfolio. For a full breakdown of holdings, please contact your Flying Colours Financial Adviser.

As always, if you have any questions relating to this report or our portfolios, please speak to your adviser.

Thank you for your continued trust and partnership.

Yours sincerely,



Guy Myles

Director and Group Executive Chairman

# Market Review Q3 2025

Financial markets generally performed well in the third quarter of 2025, supported by resilient corporate earnings, easing trade tensions, and growing expectations of interest rate cuts from major central banks.

Investor confidence was lifted by signs of stabilising inflation and continued economic growth, despite lingering concerns over geopolitical risks and policy unpredictability. The Federal Reserve's decision to cut interest rates in September helped reinforce optimism, even as inflation remained elevated.

Technology companies continued to lead market gains, with enthusiasm around AI and cloud infrastructure driving strong performance. However, momentum slowed slightly toward the end of the quarter as some firms issued cautious guidance. Smaller companies and real estate investment trusts also benefited from the improving rate outlook and renewed interest in domestic sectors.

In the UK, equities advanced steadily, with defensive stocks outperforming amid political uncertainty and the Bank of England signalling a less aggressive stance. Japan's stock market delivered robust gains, helped by a weaker yen boosting export competitiveness and solid earnings from industrial and consumer sectors.

Globally, concerns about political interference in central bank decisions added complexity to the investment landscape. The Trump administration's push for deeper interest rate cuts alongside unpredictable trade policy announcements has created uncertainty, though markets responded positively to new trade agreements with the EU, Japan, and China.

Overall, the third quarter reflected a cautious but constructive environment, where investor optimism balanced against economic and political risks.

## Markets

Global equities posted strong gains in Q3, with emerging markets outperforming developed peers. US indexes hit record highs, led by the Nasdaq's 10.9% surge, which was driven by AI-related growth stocks. The S&P 500 rose 9.96%, supported by robust corporate earnings and a 0.25% interest rate cut by the Federal Reserve.



Growth stocks outpaced value stocks, with small companies performing better than large companies. Technology led the rally, while healthcare remained the only S&P 500 sector still in negative territory for the year, despite a modest quarterly gain.

European markets outside the UK edged higher, lifted by the energy and automotive sectors, though political uncertainty in France weighed on sentiment. UK equities rose, led by defensive sectors, as the Bank of England cut rates but remained cautious due to persistent inflation.

Globally, fixed income delivered flat to positive returns, while in the UK, bonds posted negative performance. Easing inflation concerns and non-aggressive central bank signals supported both equity and fixed income performance.

## US

US stock markets posted strong gains in Q3, with the Nasdaq up 10.9% and the S&P 500 rising 9.96%. AI-stocks led the period of increase, supported by robust corporate earnings and resilient consumer spending.

The Federal Reserve cut rates by 0.25% in September, reinforcing investor optimism despite signs of economic slowing. Federal Reserve Chair Powell's Jackson Hole speech acknowledged labour market weakness, which aligns with rising unemployment and slowing job creation.

GDP growth was faster than predicted and inflation remained elevated, while manufacturing sectors continued



## Europe

European equities advanced in Q3, with the MSCI Europe ex-UK Index rising 4.6%. It was marginally held back by Germany's 0.3% GDP contraction and weak automotive sector performance, as large German manufacturers issued profit warnings. The DAX was the only major global index in the red.

In France, political instability followed Prime Minister Bayrou's resignation. However, that wasn't enough to distract European stock market performance as it was supported by improving economic data and rising defence spending. September's Purchasing Managers' Index (PMI) hit a 16-month high, boosting sentiment.

The European Central Bank (ECB) held rates steady at 2% after seven cuts, as inflation remained contained. Energy and consumer discretionary sectors led gains, while industrials and technology lagged behind.

## Japan

Japanese equities posted strong gains in Q3, with the TOPIX Index up 10.4%, backed by a weaker yen, resilient domestic data, and optimism around AI-related demand. A new trade deal with the US reduced tariffs on most Japanese exports to 15%, boosting investor sentiment.

Corporate earnings remained solid, and consumer confidence rose to its highest level since January, reflecting improved expectations for employment and spending. However, manufacturing activity continued to be subdued, and foreign sales declined due to US tariffs from early 2025.

Inflation forecasts were revised higher, and growth expectations edged up, reinforcing optimism. Ongoing corporate governance reforms and improving liquidity conditions added to the positive outlook, despite lingering concerns around trade and industrial weakness.

## Asia & Emerging Markets

Asian and Emerging Markets saw strong momentum in Q3, driven by improving sentiment toward technology and supportive policy measures. Chinese markets rebounded from earlier in the year, as government efforts to stabilise property and boost consumption gained traction.

Taiwan and South Korea benefited from global demand for semiconductors and electronics, with investors rotating into high-growth sectors. In contrast, India underperformed due to concerns over valuations, weaker earnings, and trade-related pressures.

Despite lingering geopolitical risks and uneven macroeconomic data, investor appetite remained strong across key Asian markets. Easing trade tensions and signs of gradual recovery helped offset challenges in manufacturing and exports, supporting a cautiously optimistic outlook for the region.

## Fixed Income

Global bond markets delivered mixed results in Q3, shaped by central bank actions and growing fiscal concerns.

In the US, Treasury yields fell as the Federal Reserve cut rates by 0.25%, responding to softer labour data and subdued

inflation. There is anticipation of further easing, though risks tied to tariffs remain.

In the UK, persistent inflationary increases and political uncertainty have pushed long-term gilt yields to multi-decade highs. Fiscal credibility concerns ahead of the Autumn Budget have weighed on investor sentiment, despite an interest rate cut in August.

European bonds were pressured by political instability in France,

## UK

UK equities delivered a strong performance in Q3, with the FTSE 100 surpassing an index value of 9,000 points for the first time since its inception in 1984. Healthcare and defence companies, especially those that are major FTSE 100 firms, saw gains thanks to global uncertainty and supportive US policy developments.

However, mid-size stocks lagged owing to their UK focus, as retail sector concerns and weaker consumer spending weighed on the FTSE 250. The UK economy stagnated in July, highlighting challenges ahead of the Autumn Budget.

The Bank of England reduced interest rates to 4.0%, but persistent inflation and rising borrowing costs dampened expectations of further cuts.

Investor sentiment remains cautious amid concerns over public finances, though global demand and defensive sector strength provides support heading into Q4.



where widening credit spreads led to a credit downgrade.

Bond yields rose across the region, reflecting cautious optimism about economic resilience.

Despite volatility, global bonds posted modest gains, supported by easing rate expectations and resilient demand for high-quality assets.

## Commodities

Commodities delivered mixed results in Q3. Oil prices declined, which was pressured by rising OPEC+ supply and modest demand expectations, despite geopolitical risks and US efforts to curb Russian exports. Brent crude fell around 1% over the quarter.

Gold prices hit record highs, driven by safe-haven demand amid US shutdown fears. Silver outpaced gold, supported by industrial and investment demand.

Copper prices rose, boosted by supply concerns following disruptions in the mining industry, particularly at Indonesia's Grasberg mine. In addition, aluminium prices increased, while iron ore prices also rose due to stronger Chinese steel demand.

Among agricultural commodities, corn prices advanced, while wheat and soybeans declined.

Overall, commodity performance reflected separating supply dynamics, geopolitical tensions, and investor positioning, with precious metals standing out as beneficiaries of rising uncertainty.

## Outlook

As we move into autumn, markets remain cautiously optimistic, but elevated US equity valuations and growing political uncertainty in Europe and the UK temper our enthusiasm.

At Flying Colours, we continue to take a selective approach to government bonds. While valuations have improved, rising debt issuance and fiscal fragility—particularly in the UK—reinforce our decision to keep allocations below

historical norms. We favour high-quality sovereign debt from countries with sound fiscal discipline.

We remain focused on diversification beyond traditional fixed income, including careful exposure to emerging market debt. We also maintain positions in alternative strategies, which we believe offer more effective diversification amid rising yields, policy uncertainty, and stretched equity valuations.

Given the current environment, we continue to favour a globally diversified, balanced portfolio. Our long-term investment philosophy remains centred on managing risk and delivering well-structured, risk-adjusted returns in the best interests of our clients.

## Glossary

**Federal Reserve:** Central bank of the US.

**Investment trust:** A public limited company that invests in other companies.

**Nasdaq:** A global electronic marketplace for shares.

**S&P 500:** A stock market trading index that tracks the performance of 500 leading companies listed on the US stock exchange.

**Rally:** A period of sustained increases in the prices of stocks, bonds or indices.

**Bank of England:** The central bank of the United Kingdom.

**GDP:** Gross Domestic Product.

**Tariff:** A tax imposed by one country on imported goods and services from another.

**FTSE 100:** UK stock index. The FTSE 100 tracks large-cap companies.

**FTSE 250:** UK stock index. The FTSE 250 tracks mid-cap companies.

**MSCI Indexes:** Stock indexes tracking the performance of the stocks included. Additional context can be added e.g. MSCI Europe ex-UK covers Europe but excludes the UK.

**DAX:** A stock exchange barometer that measures the performance of the 40 largest companies on the German stock exchange.

**Purchasing Managers' Index (PMI):** An index which measures the month-to-month change in economic activity.

**TOPIX:** Tokyo Stock Price Index.

**Treasury yields:** The annual return offered to investors who hold government bonds.

**OPEC+:** A group that aims to regulate the supply of oil to the global market.

**Brent Crude:** A classification of crude oil that can serve as a worldwide benchmark.

# Asset Selection & Portfolio Review

## Asset Allocation Changes

Global equity markets delivered strong returns across the third quarter of 2025, driven by resilient earnings, lessening inflation, and central bank pivots toward easing interest rates. AI enthusiasm remained a key market driver, lifting technology and semiconductor stock prices, especially in the US where rate cuts and trade deals also added momentum. Japan and Emerging Markets outperformed the overall equity markets, supported by policy stimulus, weaker currencies, and robust growth. Materials stock prices increased due to rising gold and silver prices, while small-cap and growth stocks led market performance amid lower interest rate expectations. Meanwhile, Fixed Income Markets posted mixed results. Corporate credit outperformed sovereign bonds, supported by strong demand and tighter corporate bond spreads. US Treasuries rallied following the Federal Reserve's interest rate cut, bringing it into the 4.00-4.25% range, prompted by weaker than expected labour data and rising unemployment. Across Europe, sovereign yields reflected differing fiscal positions, for example, France's long-dated bonds briefly spiking before retracing. Credit issuance surged, particularly in US high yield bonds, as lower yields encouraged corporate borrowing, highlighting strong investor appetite in a constructive risk environment.

### Defensive Fund: ProsperityShield

Our defensive fund, ProsperityShield, was adjusted to improve return potential and to strengthen portfolio resilience amid shifting interest rate dynamics. We refined our exposure to sovereign bonds, with allocations favouring regions that offer attractive yields in real terms along with valuation support. This included selective additions in markets where interest rates remained compelling, relative to global benchmarks, despite signs of economic slowing. We actively managed interest rate sensitivity in order to reduce our dependence on sharp moves in this area.

We increased our exposure to Emerging Market debt, particularly in regions offering strong yields and diversification benefits. These changes aimed to enhance income generation while balancing the risk coming from the overall interest rate and credit risk. Our reallocation decisions included trimming any

positions that have performed strongly and reducing broad ETF exposure in favour of more targeted holdings.

Commodity-linked assets were modestly added to the fund, in order to improve inflation protection. These positions were managed conservatively due to their volatility but continue to serve as useful tools for diversification and managing risk at the portfolio level.

### Growth Fund: ProsperityBuild

Our growth fund, ProsperityBuild, was also meaningfully repositioned. We adjusted our equity allocations to capture opportunities in companies that were showing solid fundamentals and attractive valuations. We also introduced new holdings in sectors and regions that we expect to benefit from stabilising interest rates, structural demand trends, and supportive policy environments. In addition, we increased allocation to areas aligned with long-term growth themes such as financials, energy, and technology.

We took profits from a few investments that had grown strongly and used that capital to invest in ideas we have a high conviction in. We also exited some lower conviction positions to sharpen the portfolio's focus. The equity strategy remains well-diversified across regions and sectors, with a focus on resilient businesses that we believe can perform well even in uncertain economic conditions.

## Portfolio Review

Defensive portfolio performance was up by 4.46% for Q3. Benchmark IA Mixed Investment 0-35% performance was up by 2.81% for Q3. The portfolio outperformed the benchmark by 1.65%.

### Equity Funds

Despite maintaining lower equity exposure than our peers, the portfolio benefited from strong regional and sector positioning. The gains that we experienced were led by supportive macro conditions and earnings momentum that drove returns in regions such as North America, Emerging Asian Markets, and Japan. Key sectors such as information technology, communication services, materials, and consumer discretionary all performed well, which reflects positive sentiment from investors and robust corporate results.

At an individual stock level, several technology and consumer-focused companies delivered strong earnings, supported by resilient demand and strategic investments. Regulatory clarity and easing trade concerns also helped lift investor sentiment. A few holdings in industrials and information services detracted from overall performance, due to competitive pressures and currency volatility, though they remain under review for long-term potential.

### Defensive Funds

The defensive funds also contributed positively. Short-duration credit strategies provided steady income, supported by elevated yields and stable market conditions. Exposure to Emerging Market debt—both local and hard currency (such as dollar or Euros)—added value, particularly in regions offering attractive yields in real terms alongside currency support.

Alternative strategies performed well across the quarter, as we saw gains from safe-haven assets and effective volatility management. Commodity-linked assets, such precious metals, benefited from macroeconomic tailwinds such as the expectation of interest rate cuts and demand for safe-haven assets, which helped to enhance inflation protection.

Overall, the portfolio's diversified approach across equities, credit, alternatives, and inflation-sensitive assets supported performance in a complex and evolving market environment.

**Over the longer term, the Defensive portfolio has achieved 12.26% over a 5-year period, compared to the benchmark of 12.24%. Our performance is down to a more defensive approach where we have less equity overall and, in particular, less US equity than our peers.**

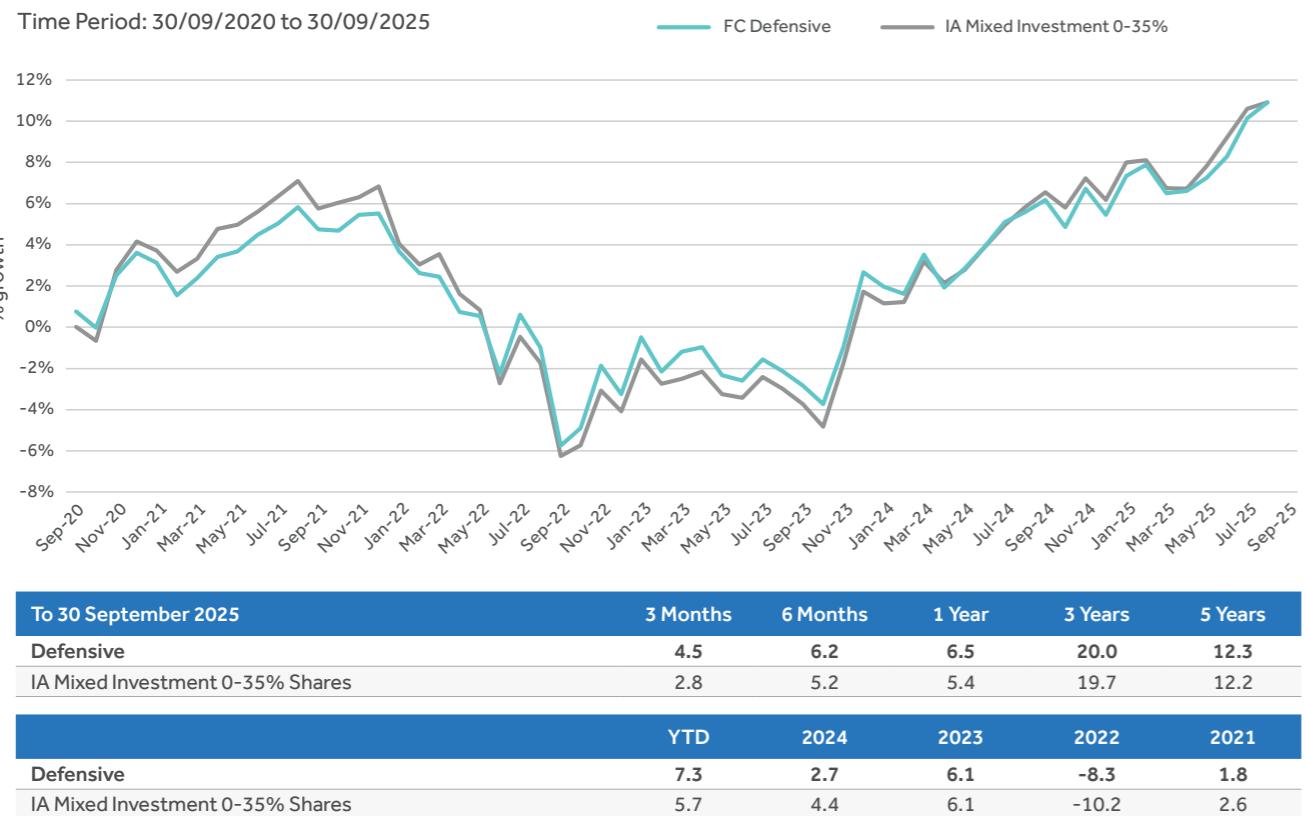
## Summary

The outlook for global markets is cautiously constructive. A more accommodating stance from the US Federal Reserve alongside easing trade tensions have helped reduce downside risks, supporting investor sentiment across risk assets. While global growth is slowing, it does remain positive, and inflation is lessening, though regional differences do persist. In equities, performance may improve if interest rates decline and economic indicators remain stable, but we must keep our attention on risks such as market concentration, speculative behaviour, and fiscal concerns in the US. On the defensive side, active management in fixed income markets remains key, while we maintain a preference for local currency Emerging Market debt that offers attractive real yields. Commodities, particularly gold, are favoured for their potential to hedge against inflation, and strategies that aim to make a positive return regardless of market performance continue to play a valuable role in managing both risk and volatility. Global stimulus efforts, including fiscal reforms in Europe and continued support from China, add to the constructive backdrop.

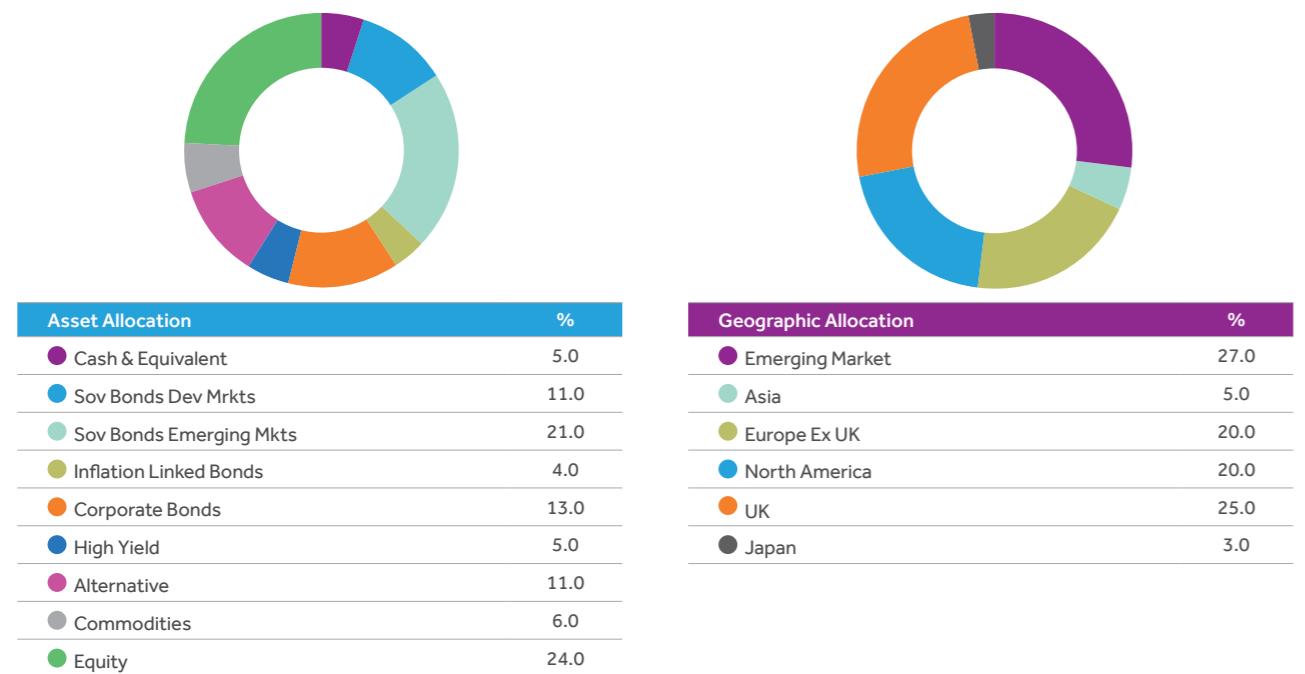
# Defensive Portfolio Performance

We use Investment Association (IA) sectors as benchmarks to measure our performance, which are also widely used across the fund management industry. The ones selected are the closest to our asset allocation, providing a good indication as to how we have performed alongside the market.

## Defensive Portfolio Growth 5 Years



## Defensive Portfolio Breakdown



## ProsperityBuild

ProsperityBuild is a growth-oriented investment fund designed to provide global equity exposure, aligned with our preferences. It focuses on active stock selection, geographic and sector diversification, and efficient implementation. ProsperityBuild aims to increase investment value over five years or longer. We control both asset allocation and style preference, leaning toward companies that have characteristics aligned with what we believe is the most appropriate in the current environment.

## Top 10 Names in ProsperityBuild

Security name	%
Microsoft Corp	3.78
Nvidia Corp	3.52
Apple Inc	3.13
Astrazeneca Plc	2.63
Amazon.Com Inc	2.39
Taiwan Semiconductor Mfg Co Ltd	2.30
Broadcom Inc	1.51
Alphabet Inc Cl A	1.45
British American Tobacco Plc	1.38
Rio Tinto Plc	1.33

Source: Morningstar Direct, 30th September 2025

We aim to be fully transparent and, as such, a full breakdown of the names in each fund can be requested from your Financial Adviser.

## ProsperityShield

ProsperityShield is a diversified, defensive investment fund designed to grow capital over the long term, while providing a smooth performance path for investors. It covers multiple assets classes globally—either directly or via other funds. The goal of ProsperityShield is to deliver returns that are similar to fixed income funds, but with lower volatility, using a flexible toolkit to manage risk and build portfolio resilience against market downturns.

## Top 10 Names in ProsperityShield

Security name	%
Fidelity Funds - Global Short Duration Income Fund	15.35
Fidelity Funds - Absolute Return Multi Strategy Fund	15.22
Fidelity Funds - Global Multi Asset Defensive Fund	9.88
Fidelity Funds - Structured Credit Income Fund	6.93
US TII 1.25% 04/15/2028	3.74
UBS ETC CMCI Composite	3.08
Ishares Physical Gold ETC	3.06
United Kingdom G.B.&N.Ireland 1% 01/31/2032 Regs	2.04
Nota Do Tesouro Nacional 10% 01/01/2033	2.04
European Union 1.625% 12/04/2029 Regs	1.97

Data correct as of 30th September 2025

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Past performance is not a guide to future performance and may not be repeated and future actual returns will differ from any quoted past performance data. Investment involves risk and the value of investments and the income from them may go down as well as up. Investors may not get back the amount originally invested.

Calls to and from our landlines are recorded to meet regulatory requirements.

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 2nd Floor, Greenwood House, London Road, Bracknell RG12 2AA, UK.