VOBIS VIEWS

Shifting Sands

WINTER 2020

Introduction

Firstly, and most importantly I hope you and your families are safe and the most recent lockdown in the UK is not too onerous on your wellbeing and any business interests you have. Let's hope that this circuit breaker will mean that we can be with family and friends in the festive period, something that is long overdue for many of us as we remain vigilant in protecting our loved ones, the NHS and the vulnerable.

Looking back...

Thankfully through the summer the combination of fiscal stimulus, a reduction in Covid cases, better management of Covid itself with less deaths meant certain sectors performed extremely well and thankfully we increased our weightings in the themes that did well, most notably technology, healthcare innovation and sustainable strategies such as clean energy and water. The more traditional cyclical / value sectors such as banking, travel and aviation were hit hard by Covid-19. Dividend paying companies either reduced their payments and some even suspended them.

The decision to go overweight in short-dated gilts and increase the level of participation in equities (without having to alter client's risk levels) also justly rewarded, the question now though is whether those tactics need to alter? We believe they do need to as the sand has very much shifted, most notably in two key areas.

Covid-19

There are two very important developments in the fight against this pandemic, one being the global effort in finding a successful vaccine and the second the importance of regular mass testing with the use of robust notification technology.

It seems that we are edging closer to finding an effective vaccine, with positive results from phase 3 studies both at Pfizer and Astra Zeneca. Interim analysis is showing that a safe vaccine that prevents Covid-19 is 90% effective (Pfizer). If this continues to be successful and Astra Zeneca's results are similar then companies in the sectors that have been damaged as a result of Covid-19 will look undervalued and as such represent an investment opportunity.

It is not necessary for the vaccine to be widely available, in fact logistically it is very difficult to get a vaccine delivered nationally never mind globally as it has to travel in extremely cold storage which presents a challenge. The importance of the vaccine is to protect healthcare and key workforces as well as the vulnerable. For the majority who get Covid-19, it can be a deeply unpleasant experience but rarely fatal.

This is where mass testing becomes so important in engaging with the pandemic and stopping the spread of the disease. A successful testing programme giving results in minutes and can be as often as daily (where needed) means that those with the virus are isolated quicker and super spreaders or those asymptomatic patients stop spreading. Robust technology is also needed to ensure that governments and populations are correctly updated.

The combination of these two measures will bring about a resurgence in the movement of people and in sectors that have recently been decimated.

US elections

Over the weekend it was confirmed that the US election has brought about a new president elect in Joe Biden, this is on the assumption that the legal challenges brought about by certain sections of the Republican hierarchy fails to alter the direction of travel.

Depending on who gains control of the senate will determine to what extent Joe Biden is able to introduce his policies but there is no doubt that shifting sands in the White House move the US to a centre left liberal democratic democracy and away from the populistic, business focussed republican presidency. President elect Biden has already confirmed that the first two things he will initiate will be the US re-joining the Paris Climate Agreement and putting together a task force in the US to battle the surge in Covid-19 cases with the latter already in motion.

The world's most powerful person has strong views on climate change and the rise in power of the so called 'FAANGs'. Joe Biden will most certainly reach out to the liberal / democratic nations and form alliances to strengthen centre left liberalism. Themes such as sustainability, smart cities and next generation technologies, in particular technologies to combat climate change and future pandemics will be supported. The Circular, Social, Green and Blue economies may well be the benefactors of a Biden administration albeit with a tighter rein than some of the Democrats would prefer should the senate be controlled by Republicans. For many this is the perfect "checks and balances" scenario with markets in favour of this however such is the polarisation in US views and politics, partisan decision making in the senate can lead to road blocks which President Obama struggled with.

The populistic, sometimes narcissistic rhetoric of the Trump administration will be missed by many in the US and around the globe. There is no argument that Trump was good for business and social media followers and you can be sure that with the second highest recorded voters since records began, he and his family are far from done.

What will be fascinating is how UK / US relations develop? Joe Biden has Irish ancestry and has not held back on his concerns that there is no return to a hard border. Furthermore, he was critical of the UK even allowing a referendum (it seems so long ago) and Brexit.

Aspirations of a US trade agreement following a hard Brexit could turn into quick sand never mind shifting sands and this presents the Conservative government with challenges both internally in the party, the negotiations with Brussels and very importantly the Good Friday Agreement with Dublin being a key influencer for Joe Biden. It has to be said though that Biden will be keen, as will the UK government, to focus on more traditional methods of foreign policy and agreements. Taxes will most certainly rise in the US and you can expect inflationary increases on goods and services as the western world starts to control Covid-19.

The investment committee has asked itself how our client's investments should adapt to the shifting in sands in the fight against Covid and the US political landscape and do we change the long term themes we have been backing for a number of years as well as the short term tactics we have deployed since March?

Theme review

Technological advancements – backed in 2014

We continue to believe that advancements in technology present investment opportunities. We do however, believe that over the last 2 years our fund choice, Polar Capital has matured and holds the tech giants which have served our investors well. The introduction of a new fund that invests in next generation technology is where we see additional growth and better diversification in this trend.

Healthcare innovation – backed in 2014

We continue to believe in this trend and especially bio sciences development ranging from large caps all the way down to micro caps. We continue to use Schroders as our fund manager for this trend.

Resource scarcity – backed in 2014

Our core theme for this trend has been a combination of Clean Energy and backing the Pictet Water team. This has not changed.

Urbanisation – backed in 2014

Our core theme for this trend has been to invest client's capital in a fund that looks to technology and infrastructure opportunities under the title Smart Cities via the team at Pictet. This has not changed.

Change in economic power – backed in 2014

Our initial focus for this trend was India, we stepped away from this regional location in 2018 and reduced our position in this trend to a minimal allocation to a fund that spreads the net across the pacific basin. We think the Asia market is on the rise and certainly a Biden presidency will look to embrace this region and as such we are increasing our allocation to this trend and Ballie Gifford, who we believe are one of the best Asian fund managers.

Sustainability – backed in 2018

We introduced this trend back in 2018 as we felt that there was a movement towards sustainable investment strategies. The two key reasons for this were the increase in investor demand and a sharper focus on the UN sustainable development goals both from the industry and sovereign states. Covid-19 and the Biden victory will further support this upward trend. We continue to invest in the Royal London and Janus Henderson sustainable fund managers for this trend.

UK value and opportunity – new

We have not been alone in being hawkish when it comes to supporting UK investments but we see a shift in the sands with the UK looking under valued. We have not been the only ones. Over the last 2 years, international investment in the UK has been at one of its lowest levels for a generation but we think the sands will start to shift for the UK as it becomes clear how Europe and the rest of the world start to trade with the UK as it represents good value. We hope that the Biden victory will help not hinder negotiations with the EU.

Focusing on key issues such as climate change investment / trade will serve the UK well as it aligns the UK to the Paris Climate Agreement and the more liberal / democratic nations as they seek to take advantage of the presidential changes in the White House (Senate permitting).

We believe there is opportunity in the UK across the spectrum of UK large caps (undervalued) all the way through mid and micro caps and have chosen 4 fund management teams that cover this spectrum. Full details of these managers are below.

For clients that like to delve into the detail please see below.

Technological advancements

Up until now we have backed Ben Rogoff and Nick Evans at Polar Capital who manage the $7.3bn Global Technology Fund. They have produced excellent results this year with top quartile performance over 3 months, 6 months, 1 year, 3 years and 5 years. It would be fair to ask why we would even consider diluting our holdings in this fund but if you look under the bonnet and look at the top holdings you see Facebook, Microsoft, Apple, Alibaba, Tencent, Amazon, Adobe, Taiwan Semiconductor and PayPal making up 33% of the overall fund.

These tech giants have delivered super growth since March and some analysts say that the share prices look overvalued whilst others say that there continues to be growth in these stocks. It is difficult to predict in these times so we asked ourselves a different question, we asked whether we could introduce a fund that focuses more on next generation technology and as such reduce the exposure to the giants at a time when we know the future US president is keen on tech giant reform through regulation and legislation capable of reigning in the tech titan's. A number of Biden's tech pledges are to kick start new technology research and spend billions of dollars in technology infrastructure to enable better broadband coverage across the country.

With the possibility of a Biden win, over the last few months we have been following Tony Kim and Reid Menge, who manage the $909m BlackRock Next Generation Technology fund. We think the introduction of a technology fund that looks to the future rather than the tech giants of today, will provide greater diversification and one hopes a positive impact to investment returns through Covid and beyond. The top 10 holdings of this fund include Tesla, Kakao, Square, Base, Locaweb, Samsung, Twilio and Livongo.

The individual holdings of the top 10 represent 13% of the fund, we like this as it tells us that they are well diversified and more importantly not one of the top 10 holdings in the Blackrock fund are in the Polar fund so no duplication in the top holdings.

The year to date chart (on the previous page) for both funds makes interesting reading. BlackRock is a riskier fund (because of next generation tech) and as such fell more in the Covid crash but through the other side, it generated superior returns to the Polar fund. As such we think BlackRock may well provide a positive impact to your portfolio.

UK value and opportunity

Value

Troy Trojan Income

Manager	**Francis Brooke, Hugo Ure, Blake Hutchins**
Fund size	**£3.168bn**
Risk score	**74**
Launch date	**September 2004**

With the developments of vaccines, mass testing and improved track and trace technology as well getting close to knowing what type of Brexit we will have, we believe the more traditional stocks listed in the UK are undervalued and present an investment opportunity not just in the short term but beyond as the UK rebuilds itself nationally and internationally in the coming years. Huge fiscal support from the Bank of England should not hinder growth as long as inflation and interest rates are managed.

The fund we have chosen for this is Troy Trojan Income, a £3bn fund that has been around since 2004 and has been top quartile over 1, 3 and 5 years in its sector (UK equity income). The top 10 holdings represent many of the undervalued cyclical stocks that will, in time, return to sensible price / earnings (PE) metrics. Please see below the 10 ten holdings.

Rank	Change	Name	%	Sector Ranking*
1	▶	UNILEVER	6.40	n/a
2	▶	RECKITT BENCKISER GROUP PLC	6.00	n/a
3	▶	EXPERIAN PLC	5.40	n/a
4	▶	RELX NV	4.80	n/a
5	▲	ASTRAZENECA PLC	4.40	n/a
6	▼	GLAXOSMITHKLINE	4.30	n/a
7	▶	NESTLE SA	4.00	n/a
8	▶	BRITISH AMERICAN TOBACCO	3.80	n/a
9	■	PAYCHEX INC	3.30	n/a
10	▼	DIAGEO	3.20	n/a
Total			**45.60**	

Opportunity

We have chosen two fund management teams that specialise in UK mid and smaller cap companies. The teams at Gresham House - UK Multi Cap and Octopus - UK Micro Cap provide good diversification across UK companies that will benefit from a UK recovery. Below is a summary of the funds and the top 10 holdings.

Gresham UK Multi Cap

Manager	**Ken Wotton and Brendan Gulston**
Fund size	**£66m**
Risk score	**70**
Launch date	**June 2017**

Rank	Change	Name	%	Sector Ranking*
1		STRIX GROUP PLC	4.70	n/a
2		XPS PENSIONS GROUP PLC ORD GBP0.0005	4.00	n/a
3		SABRE INSURANCE GROUP PLC	3.70	n/a
4		BELVOIR GROUP PLC ORD 1P	3.20	n/a
5		B & M EUROPEAN VALUE RETAIL SA	3.20	n/a
6		ALPHA FINANCIAL MARKETS CONSULTING	3.10	n/a
7		DOMINO`S PIZZA GROUP PLC	3.00	n/a
8		INSPIRED ENERGY PLC	2.80	n/a
9		RANDALL & QUILTER INVT HLDGS LTD	2.80	n/a
10		TELECOM PLUS	2.70	n/a

Octopus UK Micro Cap

Manager	**Richard Power, Dominic Weller, Chris McVey**
Fund size	**54m**
Risk score	**84**
Launch date	**July 2007**

Rank	Change	Name	%	Sector Ranking*
1	▶	HASGROVE PLC ORD 10P	3.50	n/a
2	▶	EKF DIAGNOSTICS HOLDINGS PLC	3.40	n/a
3	▲	NOVACYT	3.10	n/a
4	▼	MAXCYTE INC	3.10	n/a
5	▼	FUTURE PLC	2.90	n/a
6	▼	IMIMOBILE PLC	2.90	n/a
7	▶	NEXT FIFTEEN COMMUNICATIONS GROUP	2.30	n/a
8	▼	GB GROUP	2.10	n/a
9	■	CLINIGEN GROUP PLC	2.10	n/a
10	■	RENEW HLDGS	2.00	n/a
Total			**27.40**	

A change to our defensive strategy

Back in March we reduced corporate bonds and natural income producing funds and moved to a short-dated gilt (UK Government) fixed interest focus. This allowed us to increase the equity allocation in our themes without increasing the overall risk budgets. Whilst the gilts returned minimal returns, the increase allocation to our themes resulted in returns significantly ahead of the FTSE100 risk adjusted returns (which we use to measure performance). We feel now is a good time to review this approach and look to an alternative approach using specialist managers known as Absolute Return Managers. The thinking behind this is that when the UK economy starts to expand, inflationary pressures will ensue which in turn will mean interest rates are likely to head back to the 2% target the government has set.

This means the yield curve on which gilts are priced against will move from a flat zero and gilts, without the ability to hedge this risk, may fall in value as the coupon is less valuable. In this scenario investors want to be with managers that can take advantage of this scenario by being able to “take positions” on either side of the trade i.e. movements up and down in fixed income as well as other macro type scenarios (see section on Macro strategies a little later in the update).

Absolute return funds we like

Janus Henderson Absolute Fixed Income Fund

Manager	**Kevin Adams**
Fund size	**£200m**
Risk Score	**4**
Launch date	**Feb 2019**

Kevin Adams has headed up the Janus Henderson Institutional Fixed Income Team since 2009, and launched the Absolute Fixed Income Fund which aims to provide a positive (absolute) return regardless of market conditions, over any 12 month period. A positive return is not guaranteed over this or any other time period, and particularly over the shorter term the fund may experience periods of negative returns.

The performance target is to outperform the ICE Bank of America ML 3 month Sterling Government Bill Index by at least 2% per annum, before the deduction of charges, over any 5 year period. We have been tracking this fund since launch and there is an 18 month track record most notable through the Covid crash. What we like about adding this fund into the defensive side to our portfolio is that it introduces US treasuries as well as other investment grade fixed interest with a risk score of 4 and sits alongside the short-term UK gilts risk scores.

J P Morgan Global Macro

Manager	**Shrenick Shah, Benoit Lanctot, Josh Berelowitz**
Fund size	**£76m**
Risk score	**14**
Launch date	**October 2012**

What is a macro investment strategy?

A macro strategy is a hedge fund that bases its holdings primarily on the overall economic and political views of various countries or their macroeconomic principles. Holdings may include long and short positions in various equity, fixed income, currency, commodities, and futures markets. For example, if a manager believes the United States is headed into a recession, the manager may short sell stocks and futures contracts on major U.S. indices or the U.S. dollar. They may also see a big opportunity for growth in Singapore, for example, taking long positions in that country's assets.

How the global macro strategies work

Macro funds build portfolios around predictions and projections of large scale events on countrywide, continental, and/or global scale, implementing opportunistic investment strategies to capitalise on macroeconomic and geopolitical trends. Macro strategists make forecasts and analyse trends involving factors such as:

- Interest rates
- Politics
- Domestic and foreign policies
- International trade
- Currency exchange rates

Macro funds are considered among the least restricted funds as they generally place any type of trade they choose using almost any type of security.

The research into the macro sector focused on managers that manage their funds with a conservative approach. We were looking for funds that took a level of risk above gilts but not above investment grade bond managers (below risk score 30, remembering the FTSE100 has a risk score of 100).

JPM looks to profit on systemic and market risk factors and constructs the fund at an asset-class level based on a top-level view of the global markets. This type of global macro fund is considered the most flexible as managers can go long or short with any type of asset anywhere in the world.

It has a 4-star crown rating from FE Analytics, one of the firms we use for fund research. The three managers co-manage the fund and stands at £75m which is small in comparison to other funds in this space, but I quite like that. A smaller more nimble global macro strategy gives the portfolio some dynamism at the lower end of the risk spectrum.

Top 10 holdings

Rank	Change	Name	Top Positions
1	▶	INVESCO PHYSICAL GOLD ETC USD	1.70
2	▶	ISHARES PHYSICAL GOLD	1.70
3	▶	AMAZON.COM INC	1.20
4	▶	MICROSOFT CORP	1.20
5	■	ENEL SPA	1.10
6	▼	ALIBABA GROUP HLDG LTD	1.10
7	▼	PAYPAL HLDGS INC	1.00
8	▼	ORSTED	1.00
9	■	LVMH MOET HENNESSY VUITTON SE	0.90
10	▶	IBERDROLA SA	0.90
Total			**11.8**

Its previous years to 2020 have been OK with some periods not doing so well and then others 1st quartile but it is this year we are very interested in with YTD showing very strong figures especially with the risk the fund is taking posting a 14 out of 80 performance. This fund tends to do better when markets are choppy.

BlackRock European Absolute Alpha

Fund manager	**Stefan Gries, David Tovey**
Fund size	**£436m**
Risk score	**25**

The managers focus on European long/short positions. This means that managers will take positions based on decisions that can make a return if the value of the asset falls as we all as rises. It is a 5-star crown rated fund (FE Analytics) managed by David Tovey (since 2017) and Stefan Gries (since 2013) who also manages Blackrock Greater Europe Investment Trust.

The Fund aims to achieve positive absolute returns on investments over a period of 12 months regardless of market conditions. As such the fund will not be managed or benchmarked against any European equity index.

The Fund will be managed with the aim of delivering absolute (more than zero) returns on a 12 month basis in any market conditions. However, an absolute return is not guaranteed over a 12 month or any period and the fund may experience periods of negative return.

Performance below backs this statement up. By calendar year the only negative year in the last 5 was 2016.

Cumulative performance (GBX)

	3 Months	6 Months	1 Year	3 Years	5 Years
Fund	3.94%	8.13%	11.91%	21.02%	24.24%
Sector	1.08%	5.94%	0.15%	0.15%	4.70%
Relative to Sector	2.83%	2.08%	11.74%	20.84%	18.66%
Rank in Sector	8 / 81	28 / 80	5 / 79	2 / 65	3 / 57
Fund Quartile	1	2	1	1	1

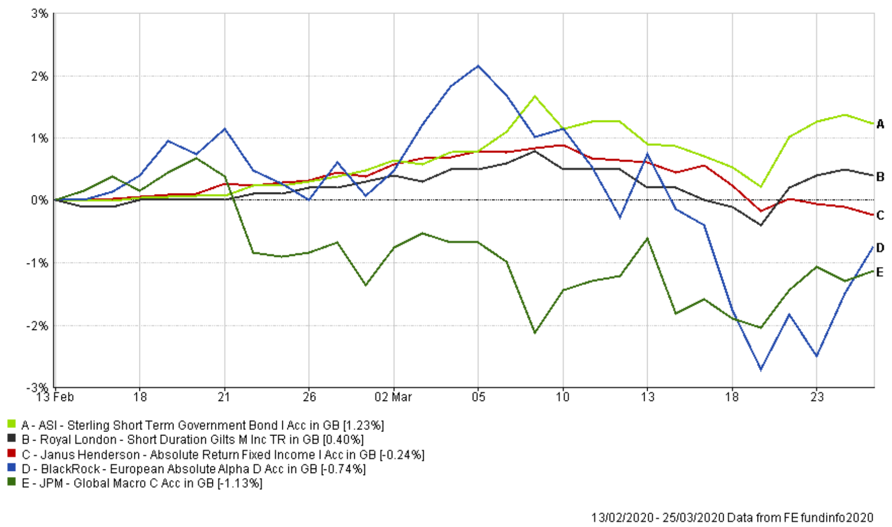
Performance through March was strong with a small drop then it really pushed through with a 2 out of 79 in the AR space year to date which is impressive as the fund takes less risk than the mean of its peers, 2019 3rd quartile and 2018 1st. Again, this fund tends to do better when markets are choppy.

Top 10 holdings

Rank	Change	Name	Top Long Positions
1	►	ROYAL UNIBREW A/S	3.30
2	▲	DSV PANALPINA AS	2.81
3	▼	LONZA GROUP AG	2.79
4	▲	RELX PLC	2.63
5	▼	NOVO-NORDISK AS	2.02
6	►	SIKA AG	1.99
7	▲	VOLVO(AB)	1.71
8	▼	BRITISH AMERICAN TOBACCO	1.65
9	▲	EXPERIAN PLC	1.56
10	▼	LAFARGEHOLCIM LTD	1.53
Total			**21.99**

Covid crash

As you can see from the chart below, the gilt funds remained positive in the period whilst the Absolute Return managers were all ever so slightly negative.



But what about the recovery period?

Fiscal stimulus / post Covid recovery

This chart relating to the period in which fiscal stimulus (globally) was extensively used, the chart shows that the increase in returns from the Absolute Return managers. If we are right in a further recovery and there is a return of inflation, the value of the gilt funds will diminish.

Property funds update

Some of our clients have been subject to “gating” in previous iterations of our portfolios and as such we have been unable to trade out of these funds. Gating took place as a protective measure when it became obvious earlier in the year that investors were wanting to pull out of funds that held assets that are not readily realisable such as real estate.

We are monitoring the situation carefully and expect in the coming weeks and months, that property fund managers will take away the withdrawal restrictions. We will then look at whether there is a drop in the price of the funds due to withdrawal requests or the property fund market stabilises. For the purposes of any switch reports you will get pertaining to the changes we have detailed in this document, they will not include any gated funds.

Summary

What has happened this year one hopes is a once in a lifetime experience, never to be repeated. We have had to adapt our way of life, the way we communicate, and the way investments are managed.

Making the decisions earlier this year delivered positive results however it is time to look at how we adapt to the changing circumstances of Covid-19, Brexit and the US elections with the aim to better the risk management techniques and endeavour to deliver positive investment returns in the themes we believe in.

We appreciate that future market movements may well not look like the last 9 months and as such increasing diversification is an important tool if the speed in which the sands are shifting. The introduction of new themes, tactical alterations and new fund managers that have different styles to those we already hold.

We will be writing to those affected by the adaptations we wish to make, in the meantime if you have any questions then please contact the investment team or your adviser.

Regards,

Sarah Lockington

VOBIS VIEWS

Let's talk

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