

Asset class positioning as a driver for long-term value generation

The MFP strategies seek to drive value through the continuous monitoring of asset classes and timely adjustment in their asset allocation in line with market conditions. The basis for the investment decisions mainly relate to a top-down approach which seeks to balance macroeconomic trends and developments with the overall asset class allocation. MFP strategy investors benefit from an added layer to the investment process as it leverages on other globally-renowned fund houses through its investment in third-party funds. This means that the investment positioning has two levels, in that, on one level there is the allocation towards asset classes, and on the other level, there is the specific selection of underlying investments in line with the fund house's investment process.

A soft market environment during the month of September

Developments during the month of September were mostly to the downside as the resurgence in Covid-19 cases in Europe, as well as the delay in fiscal policy agreement by the US Congress all hampered returns for the month in both regions. Envisaging the strategy that countries will adopt upon instances of a spike in covid-19 cases is central to determine asset allocation. The restrictive measures taken during H1 2020 will contrast heavily with those expected to be taken during H2 2020. It is evident that governments in developed nations don't want a similar scenario as that experienced during March with a full national lockdown. From an economic perspective, a full-scale lockdown provides for scarring damage to the economy, to the detriment of future generations. Newly graduated students and the younger generation have suffered tremendously during this blackout as jobs in specific industries have been non-existent and career progression slowed. As such, governments understand that a balanced approach will be key to tackle the pandemic head-on until a vaccine is discovered. During this period there will be a clear moral dilemma for authorities. They know that by letting the economy function (albeit, at a reduced growth rate), people will lose lives along the way through the contraction of the virus. This may force governments to order draconian measures on the vulnerable age bracket of society. It seems that the strategy to be adopted by governments will be a quick, direct and localized lockdown which will stifle economic growth, but not destroy it. This is a sensible approach for the economy to be able to recover once a vaccine is discovered.

Asset allocation changes during the month of September

A slight increase towards the overall equity allocation was deemed to be appropriate during the month, as the MFP Balanced and Growth strategies saw the introduction of the Fundsmith Equity Fund which has a global focus and a top allocation towards US equities. The resiliency towards downside risk by this fund was a primary consideration when assessing its inclusion into the strategies. This fund compliments the mix of equity funds within the strategies in order to balance overall strategy risk. Despite the weak returns during the month of September for asset class performance; this fund in particular over-performed its key benchmarks. Core positions for this fund mainly relate to Consumer Staples, Healthcare and Technology.

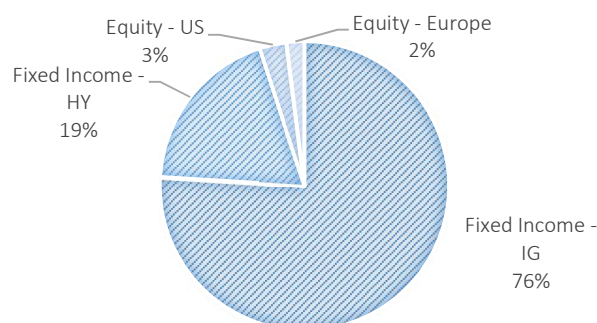
Looking forward to October

Indeed, the month of October shall feature two key developments, relating to a potential vaccine and also the run-up for the US general election which is scheduled to take place on 3rd November. At the end of the month, markets got jittery as they got the news that US President Donald Trump got infected with the Covid-19 virus. Both candidates (Trump aged 74 and Biden aged 78) for the US Presidency are at a vulnerable age. This means that their respective campaign teams need to account for the health risks that these candidates will be facing as they go around the different states in the US. First indications are that President Trump is recovering well from the virus as he was aided by top health officials to support his condition. Any further developments will be material, as this may give rise to a constitutional crisis in the US. Polls show that Joe Biden is leading Donald Trump in the race for the US Presidency, however, as we know the US is dependent on the electoral college system which makes predictions very difficult to determine as observed in the last general election with Hilary Clinton. If the polls are right, and Joe Biden gets elected, Trump has amply discussed the possibility that he will not accept the result as he deems the upcoming elections to be rigged. This controversy will have limited impact as Republican representatives have diminished this assertion. Expectations by market participants are that positive developments on the vaccine front should accrue during the month of October or latest early November. If pharmaceutical companies fail to deliver the vaccine, then market risk will rise which will require remedial action for the overall positioning of the strategies.

Finally, after countless delays by the US congress to reach a deal between Republicans and Democrats, more pressure will be exerted by markets to ensure that the policy makers deliver on what they promised. Indeed, market volatility is often synonymous with a form of pressure on policy makers to start acting and stop procrastinating. This was in clear view during the month of March 2020 which saw unprecedented volatility and also unprecedented support.

Strategy Snapshot

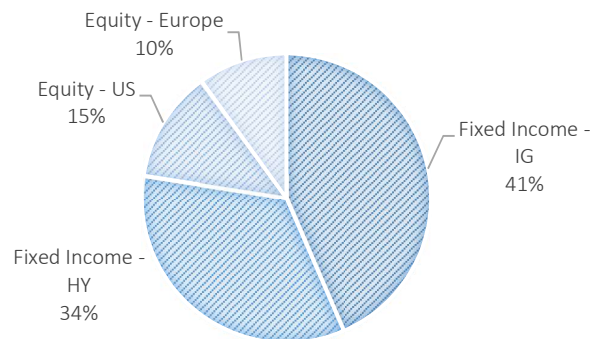
Conservative Strategy – Asset Allocation



Current Distribution Yield: 1.50%*

Fixed Income Duration: 5.36*

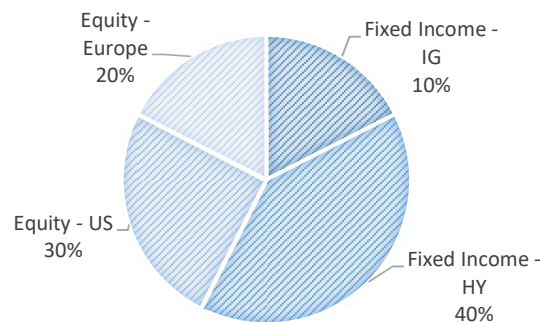
Balanced Strategy – Asset Allocation



Current Distribution Yield: 1.79%*

Fixed Income Duration: 3.24*

Growth Strategy – Asset Allocation



Fixed Income Duration: 1.41*

* All figures quoted are as at 30th September, 2020

The commentary is issued by Calamatta Cuschieri Investment Management Ltd (CCIM), being the Investment Manager of the Managed Fund Portfolio (MFP) which is a managed product issued by Calamatta Cuschieri Investment Services Ltd (CCIS).

CCIS and CCIM are licensed to conduct investment services business under the Investment Services Act by the Malta Financial Services Authority.

The MFP is subject to the terms and conditions which are available from CCIS. This is not a capital guaranteed product and the value of investments, can go down as well as up. The capital invested and income derived can fluctuate and the value of investments depends on the performance of the underlying UCITS funds, as selected in the investment plan. Investors may not get the full amount invested. Past performance is no guarantee or indicator for future performance. Quoted figures do not take taxes and charges into account. Some of the funds in the portfolio invest primarily in equities and non-investment grade bonds that carry a greater element of risk than investment grade bonds.