Monthly Strategy Review | August 2021

MFPs have a multi-tiered investment process towards allocating and selecting underlying investments

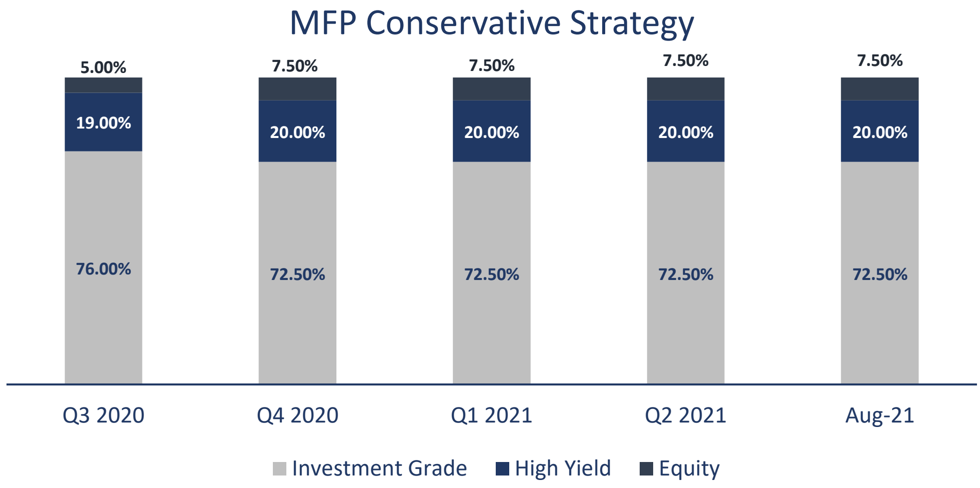
A quick look into the MFP strategy factsheets provide the necessary details for investors to understand the asset allocation and the choice of the underlying collective investment schemes. MFPs are managed through a multi-tiered investment process in order to strike a balance between expected risk and return. The investment strategy of choice for MFPs ties to the top-down approach, in that, macroeconomic expectations provide the basis for the overall investment decision. All strategies have a global underpinning. As a result, the investment strategy is not restricted to one region, but rather to multiple developed regions. Indeed, regional selection plays a vital role in order to determine the appropriate allocation within a specific asset class.

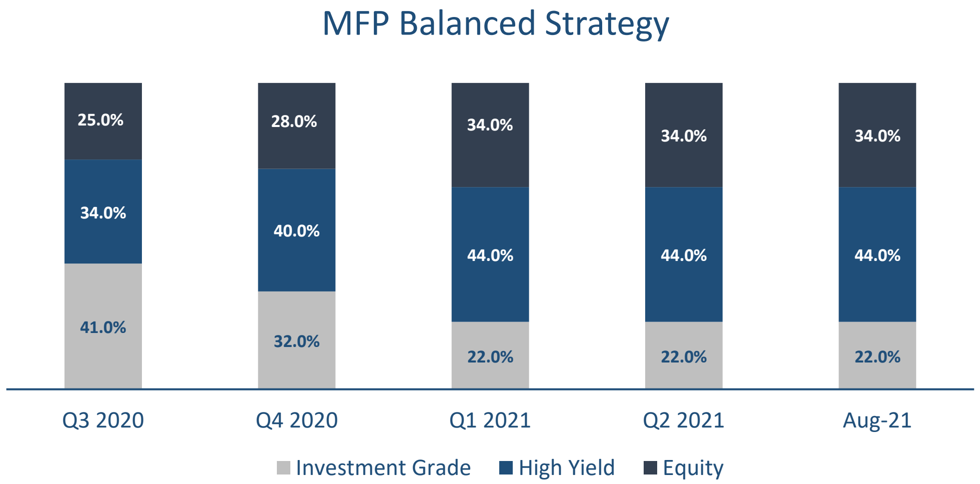
After determining the macroeconomic expectations, asset allocation take centre stage in order to tilt asset class exposures in line with market view. Following this process, collective investment schemes are selected in line with a proprietary fund scoring mechanism in order to determine third-party funds that have a track record of outperforming peers on a risk-adjusted basis. The basket of third-party funds is screened for trading-specific and regulatory factors. This means that the investment team ensures a low-cost base for the underlying investments, whilst also ensuring that all funds are UCITS which affords investors a degree of protection.

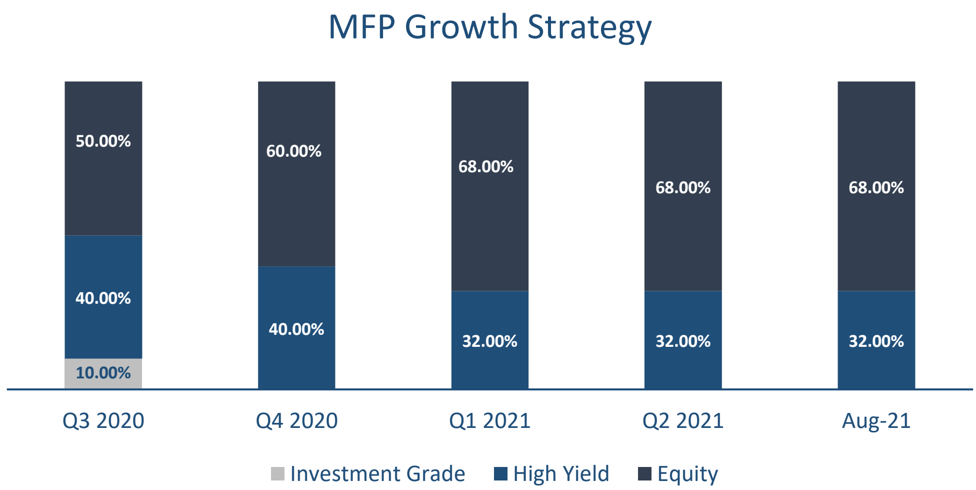
Equity returns continue to boost MFP strategy returns with the US and Europe providing similar performance for the month

The month of August is most often associated with lower than average liquidity with a pick up observed for the month of September as the quarter ends. Despite the low liquidity observed in equity markets, they continued to deliver strong returns with the Euro Stoxx 50 returning 2.63% for the month. The greatest fall in equity performance came from Chinese markets as policy risk continued to dampen confidence for investors in the region. Both European and US equity markets continued to leverage on their respective Central Bank policies to edge higher. The Jackson hole symposium was considered a critical date for the month of August, however, the US Federal Reserve Chairman, Mr. Jerome Powell left investors more in a sense of ponderance rather than concreteness. He highlighted the remarkable progress in the US economy following the covid-19 shock, however, fell short from committing that this is sufficient to start taking off the table the sheer money supplied to markets. The major factor influencing the Fed chairman is the Delta variant and the low vaccination drive in the US. Indeed, only half of the US population (53% to be precise) is fully vaccinated. This is well below the recommended levels to achieve herd immunity. As such, both these concerns will make it difficult for the Fed to balance these risks. The Fed has continued to pour money in markets which has exacerbated liquidity to unprecedented levels. This gave way to gaps between fundamentals and the price paid for most types of investments. The liquidity spurt in the US and Europe has potentially given rise to inflated valuations for emerging asset classes, such as crypto currencies and non-fungible tokens, as well as, meme stocks (like Gamestop and AMC entertainment) in which underlying companies are massively overvalued considering their weak fundamentals. The Fed has to also contend with the US housing boom which has left middle-income earning Americans with limited opportunities to own a home. All policy action has repercussions and their effects will be intended to address short-term weaknesses in the economy, however, investors need to keep in mind that all this will have a medium to long-term impact which will be a key determinant for asset class returns in the future.

Asset allocation changes over recent quarters for each MFP strategy

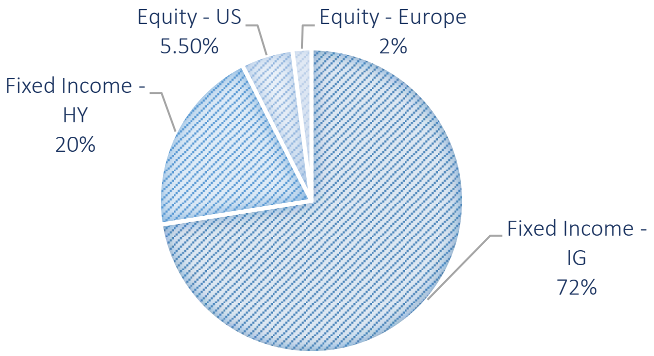






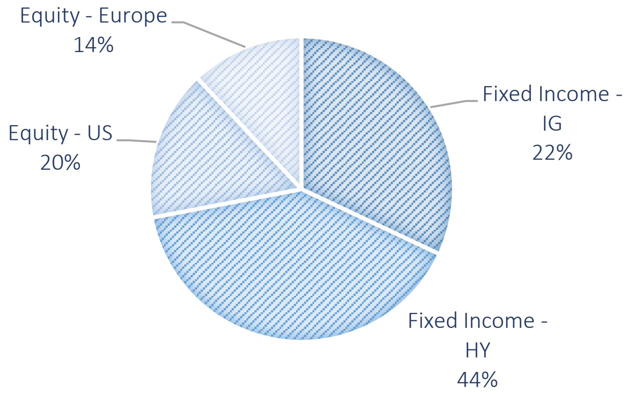
Strategy Snapshot

Asset Allocation | Conservative Strategy



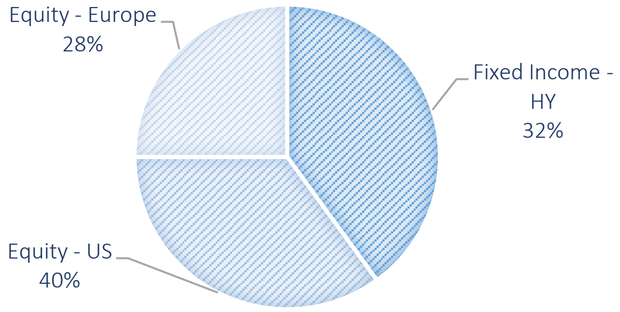
Current Distribution Yield: 1.42%*
Fixed Income Duration: 5.37*

Asset Allocation | Balanced Strategy



Current Distribution Yield: 2.19%*
Fixed Income Duration: 4.02*

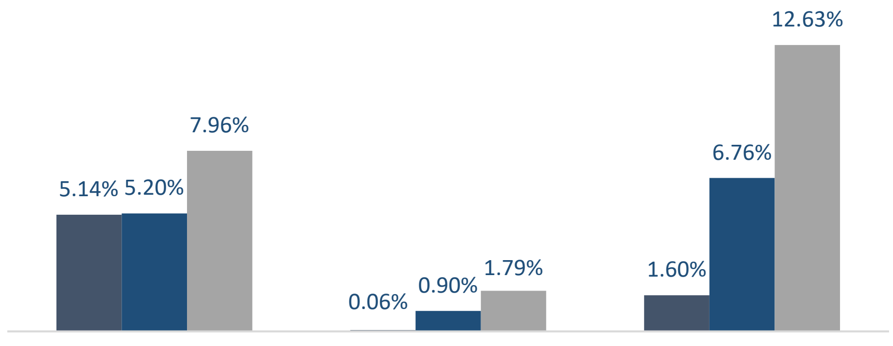
Asset Allocation | Growth Strategy



Fixed Income Duration: 2.77*

** All figures quoted are as at 31st August 2021*

Performance Snapshot



	2020	Aug-21	YTD
Conservative Strategy	5.14%	0.06%	1.60%
Balanced Strategy	5.20%	0.90%	6.76%
Growth Strategy	7.96%	1.79%	12.63%

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