Monthly Strategy Review | September 2021

A multi-house approach remains a key tenet to strategy formation

Investing in multiple funds does not solely diversify the underlying investments, but also the investment thesis underpinning forward expectations. A fund house refers to an asset management company, in that it manages pooled capital in regulated markets. Every fund house has a unique investment process, belief and structure that determines the optimal market risk allocations to reflect their investment approach. Strategy-based investors exploit this opportunity by investing in differing fund houses which reduces house-specific risks. Traditionally, investors allocated capital to one fund house, making them dependent on one investment approach. In these multi-fund strategies, the investment process is diversified which contributes to reducing high conviction bets that individual houses may undertake.

Fund houses also tend to specialise in specific markets, for instance, some of them may be focused on debt markets, whilst others have a strong track record in equity markets. Multi-fund strategies seek to allocate capital according to the core competency of the fund house within specific markets. This ensures that strategies are underpinned by leading funds intended to provide intended benefits for long-term investors.

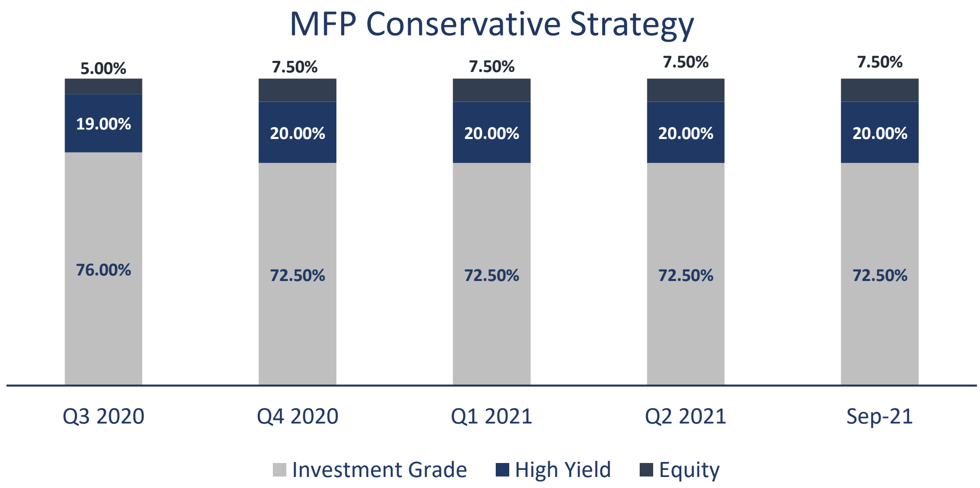
Risk-off environment for all major asset classes during the month of September spurred by inflationary expectations

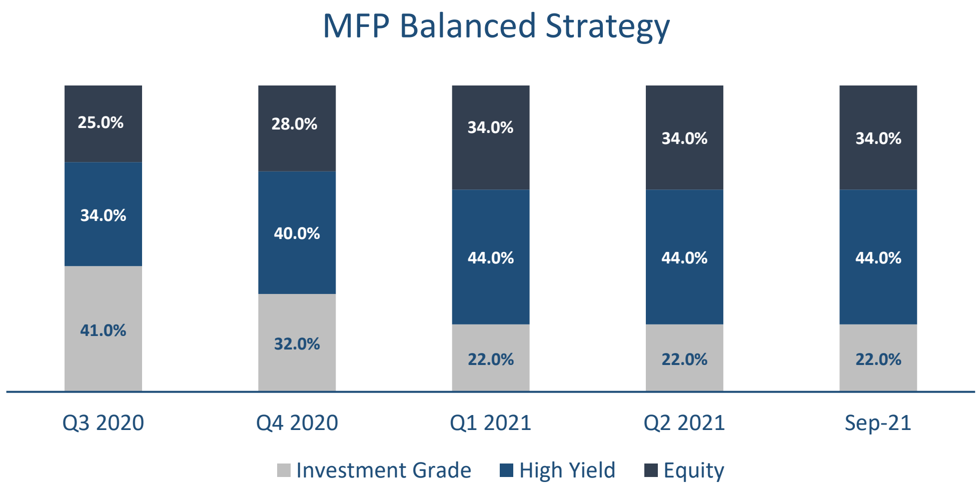
The downsizing of monthly asset purchases by the FED and short-term high headline inflation numbers in the US, kicked off an adverse risk sentiment in markets. The hardest hit for the month was experienced by equities as both US and European equity markets sold off. This came on the back of higher expected rates in the US as inflationary breakeven points (at all maturity levels) all exceeded the 2% mark. The rate hike cycle in the US is a necessary occurrence in order to normalise policy as the economy stabilises and cuts back on the negative output gap. Indeed, output levels for the US should converge to long term averages by 2023, as the FED anticipates the US to grow at 2.50%. The elevated valuations in equities following the unprecedented global policy support may be a reason for the shaky performance as the expected rise in the cost of capital softened expectations.

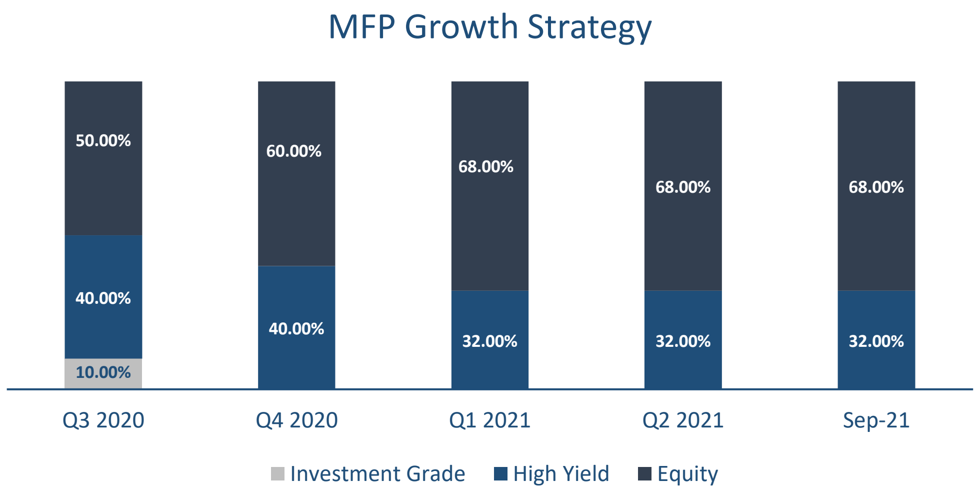
The sluggish outlook for the European region played into the high yield space, in that, it remained relatively stable during the month given that high level policy support remains in tact for the Euro Area rate cycle. During the month, European high yield experienced a reversal in trend, in that, yields tightened until mid-September, however, they reversed course as yield volatility from the US filtered through. The risk-off tone for the month was complimented by a stronger US Dollar against major currencies, as it strengthened 1.94% against the Euro. Long dated Investment grade debt sold off significantly for the month with losses exceeding 2%. All strategies continued to benefit from their year-long positioning given the underweight exposure in investment grade debt and the overweight exposure in European high yield. Indeed, on a year to date basis, long-dated investment grade debt experienced significant downside, whilst European high yield contributed positively to returns. The same could not be noted for emerging high yield debt as the stronger dollar, China's woes and the low vaccination rates resulted in further widening for the month.

The widely recognised volatility index known as the VIX Index, jumped 43% for the month as market risk brushed aside equities. Industry returns show that the fall in values stemmed from the inflationary risks in the US economy which trickled to other regions including Europe. Indeed, defensive sectors such as utilities and real estate underperformed for the month. The same could be ascertained for cyclical stocks that have experienced sudden increases in economic demand during H1 of 2021, such as retail, construction and materials, media and industrial goods. The outperformers for the month related to the energy, banking and travel industries with economic factors benefitting these industries.

Asset allocation changes over recent quarters for each MFP strategy

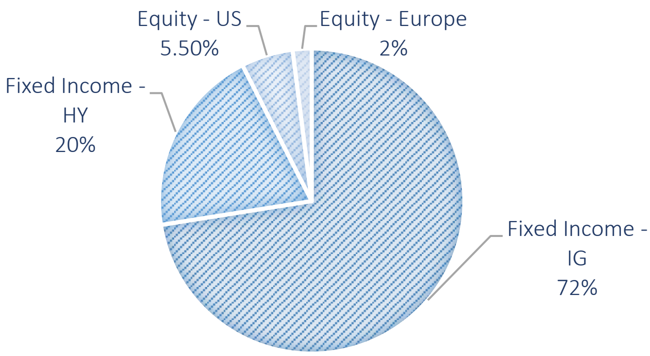






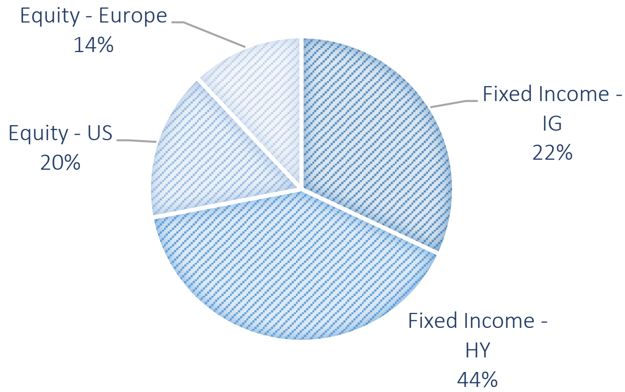
Strategy Snapshot

Asset Allocation | Conservative Strategy



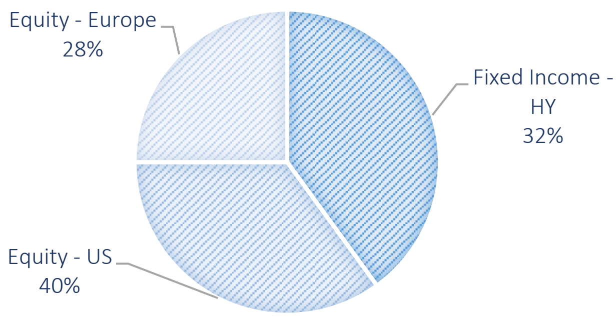
Current Distribution Yield: 1.43%*
Fixed Income Duration: 5.37*

Asset Allocation | Balanced Strategy



Current Distribution Yield: 2.20%*
Fixed Income Duration: 4.02*

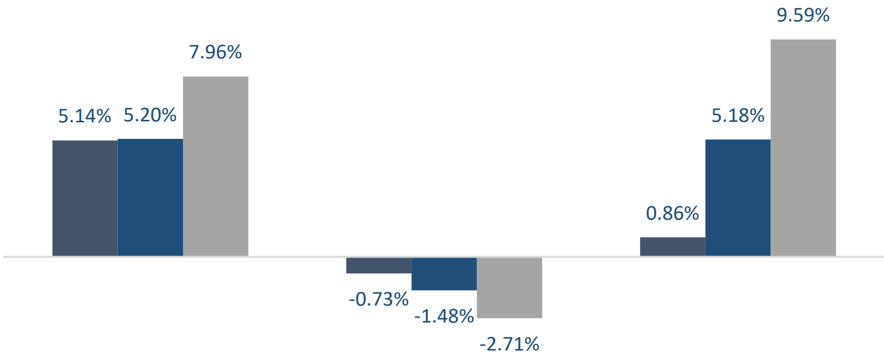
Asset Allocation | Growth Strategy



Fixed Income Duration: 2.77*

** All figures quoted are as at 30th September 2021*

Performance Snapshot



	2020	Sep-21	YTD
Conservative Strategy	5.14%	-0.73%	0.86%
Balanced Strategy	5.20%	-1.48%	5.18%
Growth Strategy	7.96%	-2.71%	9.59%

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