INVESTMENT REVIEW

BECKETT ASSET MANAGEMENT LTD

Quarter 2 2020

Quantitative easing and central bank actions have been so extraordinary that we have now referenced the topic in every monthly update recently. In keeping with our newly formed habit, let's examine the extent of money creation that has occurred: according to the St. Louis Fed's research, the Federal Reserve, the largest central bank, now owns $4.19 trillion of US treasury bonds (US government debt). Anecdotally, that's more than Germany's entire GDP for 2019. In other words, the Federal Reserve now has assets worth more than the value of all German (Europe's largest economy) economic activity for 2019 (ref: Statista). The quantum of money creation is truly mind-blowing and it would appear some of the implications are also - given we now have the US equity indices nearing all-time highs while still experiencing some of the worst economic data since the great depression.

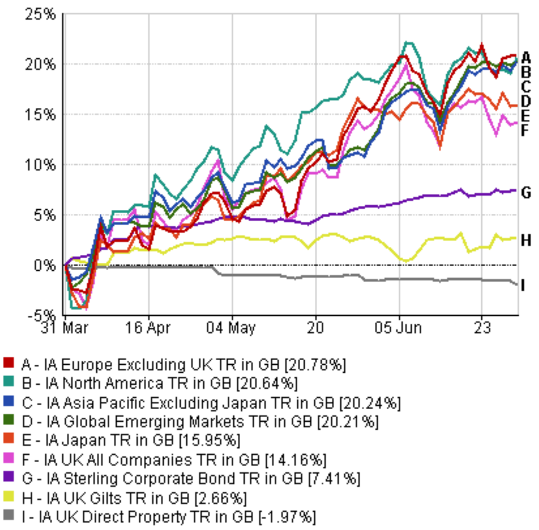
You may have seen recent media headlines regarding 'capitalism 2.0' or the 'build back better' campaign. To many, these are further signals that there is a growing distaste for the status quo and, across the developed world, it is more and more often quoted that inequality is rising. In the US, the highest earning 20% of families now make up more than half of all the household income; in 1968 this was 40%. Inequality by this measure has been growing uninterrupted for over 50 years (ref: Pewresearch.org). Another trend that has been broadly uninterrupted for over 50 years is the decline in interest rates. In justifying the correlation between these two phenomena it has been highlighted that, as interest rates fall, innovation suffers thus leaving the masses behind, increasing the divergence between the 'haves' and 'have nots'. It seems logical that, as debt finance becomes cheaper, the required return on an innovative project decreases, while continuing to be profitable. Logically, this would diminish the necessity for the best innovative projects. Although we are not sociologists, this societal phenomenon perhaps portrays itself within our sphere of competence; financial markets. This is something we continue to debate and assess the potential implications of.

THE MONEY PRINTER STAYS ON

SOCIETAL TRANSFORMATIONS

A PANDEMIC GOOD NEWS STORY

US CHINA TRADE TENSIONS



Figures shown are for a sterling denominated investor, for the 3 month period to 30/6/2020. Source: Financial Express Analytics

The pandemic has provided no barrier to the growth in renewable energy. To highlight a few bits of evidence: Germany has now reported their first ever quarter with more than half of their energy production coming from renewable sources. Over the same quarter the Tesla Model 3 electric vehicle became the best-selling car in California. In the UK, renewable energy sources including solar, wind, and hydro became the dominant energy source for the first time ever, equalling 44.6% of the total power generation (figures taken from BEIS.gov.uk).

A slight reduction in the Coronavirus headlines has given way to a re-emergence of coverage on the US China Trade wars. As we have been saying for some time now, this is not a new spectacle nor an old one; this is a secular clash between the two largest economic powers, jostling for dominance with distinctly different views of how best to execute economic affairs. There is no doubt that the Hong Kong escalations may further intensify the tensions. With the upcoming US presidential elections, this is likely to be a key point of contention. In a period of heightened volatility with trade tensions and presidential campaigns both adding to uncertainty, we expect our active managers to perform well.

In terms of how all this translates into the BAM portfolios, performance over the second quarter has been very strong in both absolute terms as well as against our benchmarks. Indeed, the relative out-performance against our benchmarks during this difficult period has been some of the strongest we have achieved in the last few years. We have received many kind words regarding the performance and we would like to thank clients for the trust they have placed in us.

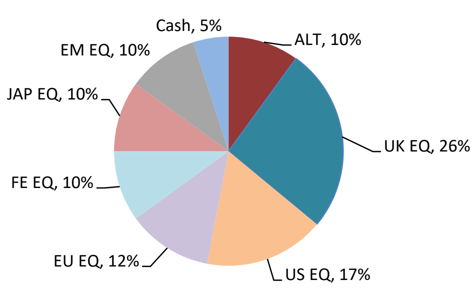
BAM Portfolio Models' Investment Performance

	30/06/2015-30/06/2016	30/06/2016-30/06/2017	30/06/2017-30/06/2018	30/06/2018-30/06/2019	30/06/2019-30/06/2020
Defensive Mixed Assets*	+0.95%	+7.81%	+2.25%	+0.48%	+1.30%
UK CONSUMER PRICE INDEX + 2%*	+2.41%	+4.73%	+4.29%	+4.02%	+2.57%
Defensive Balanced Mixed Assets	+1.33%	+8.17%	+2.61%	+2.84%	+0.69%
Social Impact Portfolio	n/a	+15.52%	+6.12%	+5.34%	+3.64%
ARC Sterling Balanced Asset PCI	+1.59%	+10.57%	+2.98%	+2.27%	-0.24%
Balanced Mixed Assets	+3.39%	+14.13%	+3.84%	+1.68%	-0.18%
ARC Sterling Steady Growth PCI	+2.49%	+14.40%	+4.92%	+3.08%	-1.29%
Focused Growth Mixed Assets	+0.95%	+21.99%	+11.21%	+0.38%	+1.43%
ARC Sterling Equity Risk PCI	+3.01%	+17.05%	+6.36%	+3.50%	-2.21%

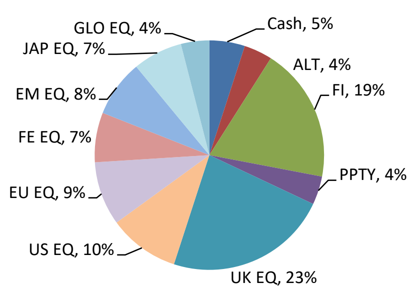
Notes: BAM figures take into account normal dealing costs but not Beckett fees. Source: BAM portfolio performance figures: Beckett Asset Management. Indices: FE Analytics - Total Return
ARC PCI: Asset Risk Consultants (ARC) operate the Private Client Indices (PCI) across the risk spectrum as performance measurement yard-sticks for discretionary portfolio managers.
Please note that the Defensive Mixed Assets model aims to outperform the stated benchmark over 36 month rolling periods. *DMA and CPI+2 data 12 months to the last available inflation print.
OVERSEAS EQUITY RETURNS FOR A STERLING DENOMINATED INVESTOR
PAST PERFORMANCE IS NO INDICATOR OF FUTURE PERFORMANCE

Target Model Portfolio Structures

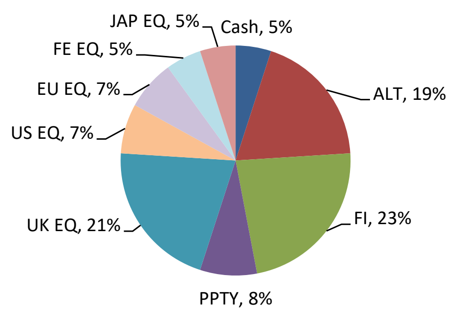
Focused Growth Mixed Assets



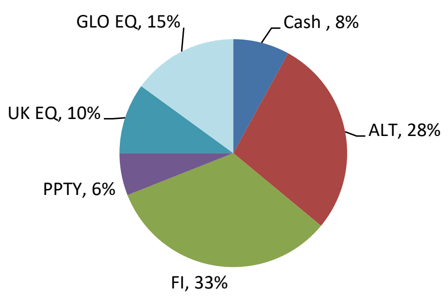
Balanced Mixed Assets



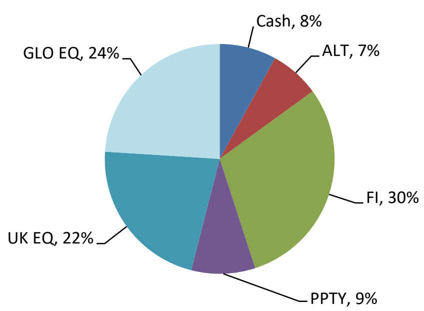
Defensive Balanced Mixed Assets



Defensive Mixed Assets



Social Impact



FI	Fixed Interest
UK EQ	UK Equities
PPTY	Property
EU EQ	European Equities
EM EQ	Emerging Markets Equities
FE EQ	Far Eastern Equities
JAP EQ	Japanese Equities
US EQ	US Equities
GLO	Global Equities
ALT	Alternatives

PLEASE NOTE THAT ASSET ALLOCATIONS MAY CHANGE OVER TIME

As is the very nature of investing, there are inherent risks and the value of your investment will both rise and fall over time. Please do not assume that past performance will repeat itself and you must be comfortable in the knowledge that you may receive less than you originally invested. Changes in rates of exchange may have an adverse effect on the value, price or income of an investment. The opinions stated are those of Beckett Asset Management Ltd, which is authorised and regulated by the Financial Conduct Authority.

BECKETT ASSET MANAGEMENT LIMITED
DETTINGEN HOUSE, DETTINGEN WAY, BURY ST EDMUNDS, SUFFOLK, IP33 3TU
T: 01284 754500 E: INFO@BECKETTINVEST.COM WWW.BECKETTINVEST.COM