

MARKET UPDATE

August 2020

July was a mixed bag from a performance point of view. In contrast to the bounce back of the second quarter, July was a negative month for a number of markets with the UK continuing to lag, largely due to the constituents of the UK market and a Brexit cloud. The early part of the month saw portfolio values continue to rise before falling back as Covid-19 cases around the world rose and many corporate earnings were in free fall. Tech companies, though, are still bucking that trend. The high-profile congressional appearances of a number of U.S. technology giants to answer a range of questions focusing on their power and influence were followed by a series of generally well-received profit statements that simply reinforced their power and influence.

US ELECTION LOOMS

The US presidential election is now looming larger in investors' minds. Trump continues to trail Joe Biden in the polls, with the Democrats increasingly confident of also winning both houses of Congress. The Democratic Party typically supports higher taxes and increased regulation; watch out you tech giants! A Biden presidency (who, incidentally, would be the oldest president ever) is likely to be less erratic than the previous four years. If Biden's lead in the polls shortens in the run up, though, there is a high likelihood of an election dispute which could take weeks to resolve - leading to a negative spill over into the economy. Elections are decided by fewer states now; forty years ago, there were about 12 swing states, now there is only a handful.

PROPERTY & LOCKDOWN

As we gradually emerge from lockdown, the majority of open-ended property funds remain suspended due to the Material Uncertainty Clause. However, the hybrid BMO fund (a blend of bricks and mortar assets and listed property companies) held in some of our models has reopened and another fund (not in our models) investing in residential properties has also reopened. We are closer to the others opening too, as the process of lifting material uncertainty from specific asset types and sectors, like stand-alone food stores and the Industrials sector, continues, but it is not clear when they will be lifted completely. Suspensions are formally reviewed every 28 days.

GOLD GLITTERS

We should have been looking forward to witnessing superhuman feats in the Tokyo 2020 Olympics, yet another event which has succumbed to Covid-19 and rather aptly: gold is at all-time highs. This is while US Treasuries yields are around all-time lows, reflecting how worries

remain. Although gold does not pay an income, this becomes less of a problem as bonds pay less in real terms. Sustainable income is harder to come by than ever, especially after the raft of dividend cuts and suspensions. The expected cut in the headline UK market of approximately 44% is worse than we are generally hearing from our active income managers. Despite taking a hit this year, this may be a silver lining accelerating the end of unsustainable policies, reducing the concentration of dividends and importantly, allowing room for faster growth in future. We are trying to find sustainable income in alternative areas like Listed Infrastructure which covers a range of companies that vary greatly in their nature. Funds can lean towards companies that offer essential services such as water, electricity and gas, demand for which remains relatively stable even in times of economic weakness, making the revenue of utilities easier to project. If the economic outlook is more positive, then a fund may have a higher proportion of 'user pay' assets. Railways, airports, roads, ports, mobile phone towers and satellites are examples of user pay assets, all of which are critical to move people, goods and services through an economy. We like funds which dynamically allocate to both types of assets in response to valuation opportunities and shifts in the economic outlook.

SOCIAL IMPACT MODEL



5 YEAR MODEL PERFORMANCE VS BENCHMARK*

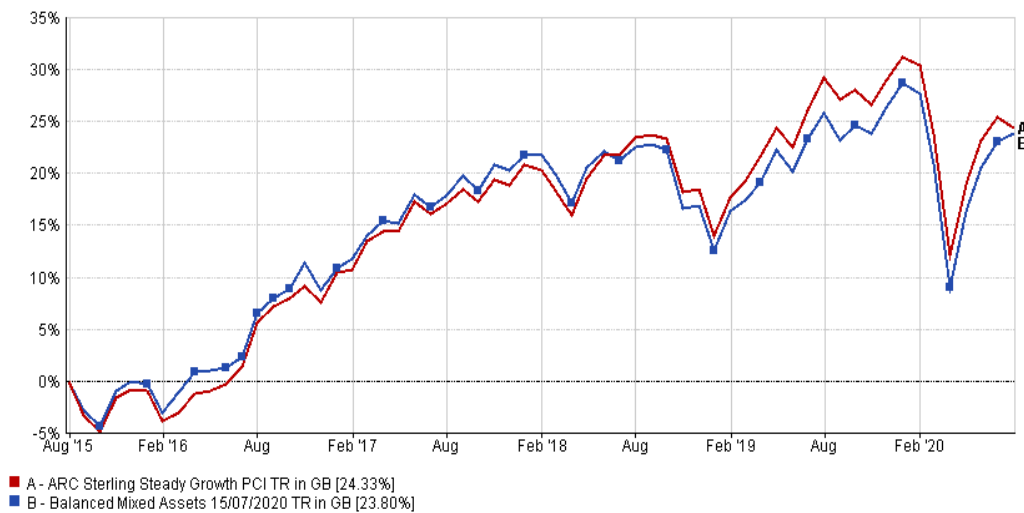
DEFENSIVE MIXED ASSETS MODEL



DEFENSIVE BALANCED MIXED ASSETS MODEL



BALANCED MIXED ASSETS MODEL



FOCUSED GROWTH MIXED ASSETS MODEL



BAM figures take into account normal dealing costs but not Beckett fees. Source: FE Analytics – Total Return.

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