Fund Management Monthly Commentary

Covering the month of July 2020

July Market Update

Margetts' monthly diary discusses major economic and market developments that occur over the month. It is written by the Fund Management team.

Bonds broadly outperformed equities during July, as concerns of a second Covid-19 wave weighed on risk assets. The best performing sectors over the month were IA £ High Yield (2.89%), IA Global Emerging Markets (2.12%), and IA £ Corporate Bond and £ Strategic Bond (both 1.70%). The worst performing sectors over the month were IA Japanese Smaller Companies (-7.60%), IA Japan (-6.39%), and IA UK Equity Income (-2.99%).

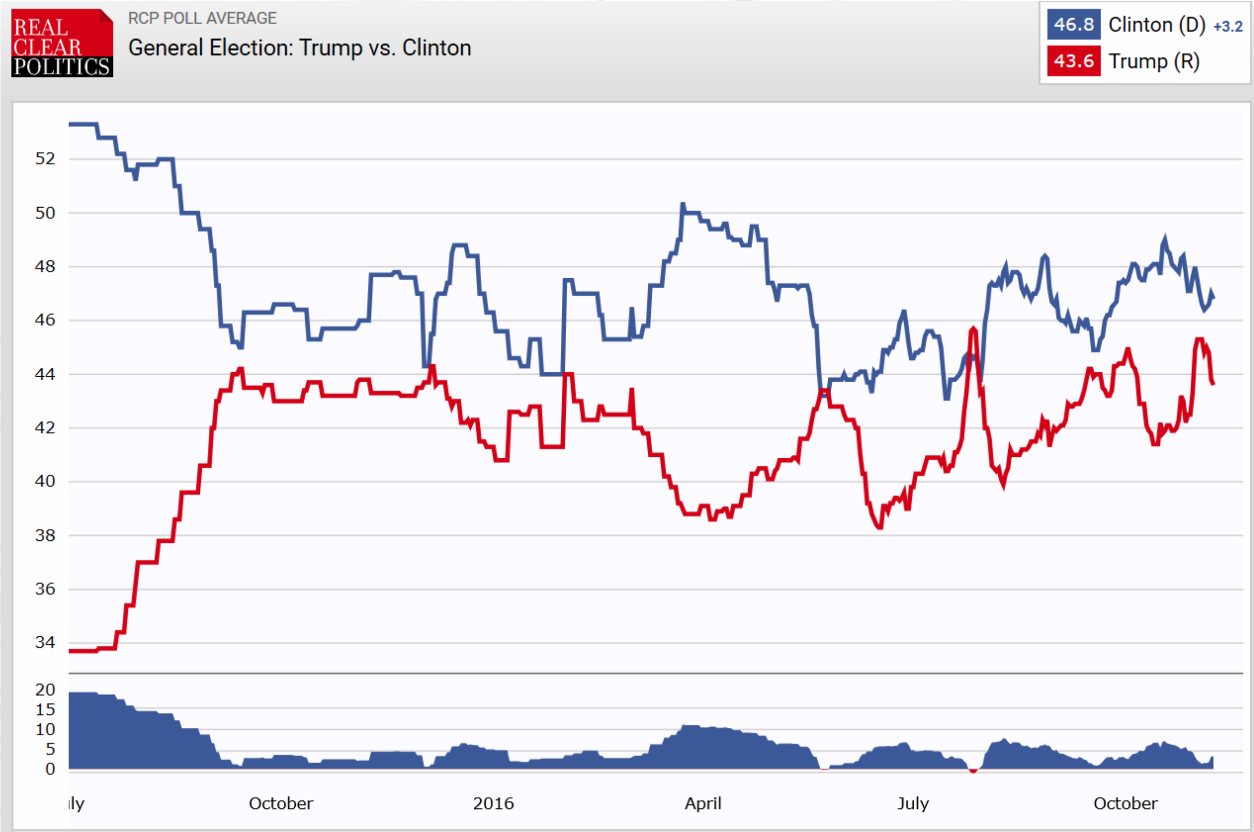
July was notable for a remarkable slip in the dollar against other currencies. Traditionally, the dollar has been one of the most robust safe havens for governments and investors, especially in market downturns. This coincided with a rush into gold, pushing the price per ounce well north of the previous all-time high in 2011, close to $2000. This hints at market expectations that the dollar will remain weak, and low interest rates will be the reality for a long time to come. Conversely, sterling has regained much of its lost ground against the dollar (hitting $1.30) since Boris Johnson reiterated his adamance that the transition period would not be extended beyond 2020. The euro also gained strongly by c.5% against the dollar in July.

Confirmed Covid-19 cases hit a new daily high at the end of July, with 289,524 declared worldwide, bringing the total as of the end on July to 17,754,220. Total deaths worldwide from the disease hit 682,609.* The USA remains by far the worst affected country, followed by a slew of emerging market countries such as Brazil, India, Russia, South Africa, Mexico, Peru and Chile. The days of China as the epicentre of the virus are long over, with 28 countries having surpassed its total declared cases. Europe has followed the Asia Pacific economies in restricting the virus to isolated outbreaks, typically occurring in densely packed cities or warehouses, and until a vaccine is discovered, rolling localised lockdowns will be the ongoing reality in developed economies.

July saw Donald Trump threatening to ban TikTok in the US by September 15th unless its US operations were sold to an onshore company with the treasury receiving a payment for the forced sale. This threatens to further destabilise the tentative trading position between China and the US, having already been dented by the US's revocation of Hong Kong's special trading status. Microsoft appears to be the most plausible buyer of the US trance of the business from its current owner, Bytedance. The US is far from the only country concerned over the data security of Chinese technology companies, with India having banned TikTok in June, and many other countries mulling over similar action.

In political matters, Brexit remained quiet in the media, with the most overt news being the successful progress in negotiations of a trade deal between the UK and Japan. This bilateral free trade agreement is expected to cover fundamental concerns for the sake of business continuity and allow for subsequent additional discussions on areas where there is no complete agreement. This trade deal negotiation will likely prove to be a template for future equivalent treaties with other countries, with a fundamental basic structure agreed upon to allow trade continuity, followed by extensive subsequent negotiations over areas of controversy.

The US Election is now looming large in the macroeconomic rear-view mirror, despite Donald Trump's apparent attempt to delay the proceedings. The incumbent's attempt to restart the economy ahead of the election has proved significant in causing the Covid-19 virus to tighten its grip. Polling throughout July remains consistently ahead for Joe Biden, usually in double figures and well ahead of typical margin of error. However, the average polling evidence from the last presidential election (as can be seen below) between Donald Trump and Hillary Clinton demonstrates that writing Donald Trump off for potential re-election is unwise.



*Coronavirus data is taken from https://www.worldometers.info/coronavirus/

Strategy

While the recent flare-ups of the Covid-19 virus in countries which had largely quashed it are concerning, we believe that the considerable increase in testing, particularly in developed economies, is a significant positive. This will allow for more targeted responses against localised outbreaks, which is key to stopping the re-imposition of economically damaging countrywide lockdowns. In this regard, along with the rapid progress of medical research, we are bullish on the global recovery and equity markets and continue to favour equities over bonds.

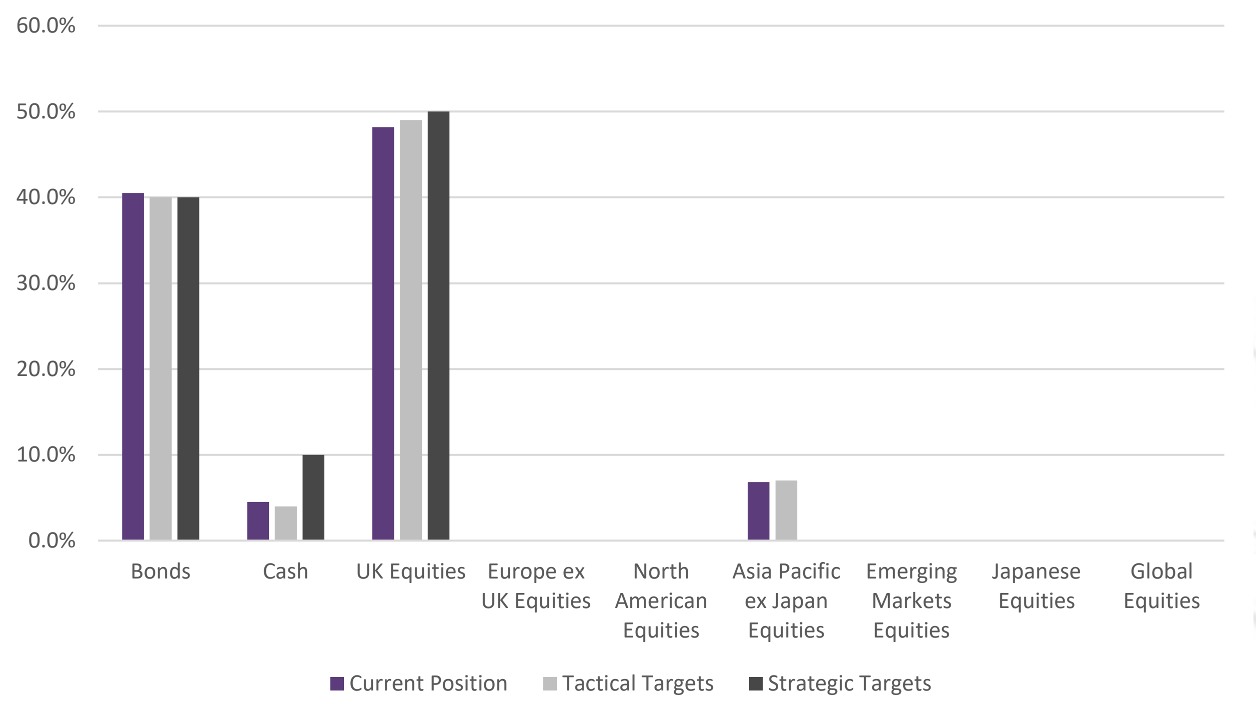
The significant intervention in government bond markets via monetary stimulus, with the expectation that more will be required, continues to flatten yields. It is our view that the risk of inflationary pressure is not being adequately reflected in the price and, with sovereign debt already likely to produce a sub-inflationary return if held to redemption, the attraction of owning such assets is low. We retain an overweight position in short-dated corporate bonds with an emphasis on investment grade debt. The yields on offer are above inflation while protecting our investors from the credit spread and duration risks.

In our equity allocation, we continue to hold overweight positions in Asia Pacific equites, as the response of China, Taiwan, South Korea etc. to the Covid-19 virus has been exemplary and these economies are likely to recover faster from the crisis. Our Emerging Markets holdings contain very little exposure to LATAM countries where the virus continues to rampage unabated. We retain an underweight exposure to the US, which has handled the virus poorly and, aside from the mega-cap tech companies, is showing signs of economic slowdown. Our UK positioning will benefit from positive Brexit developments and we remain quietly optimistic that progress towards a trade deal of some capacity is being made.

Margetts Risk Rated Funds

The below charts show the current positions of the funds, the tactical (short term) targets, and the strategic (long term) allocations. We aim to keep the current positions in line with the tactical targets from week to week. The differences between the tactical and strategic targets reflect the views and convictions of the Margetts Investment Committee.

Providence



The tactical targets were changed, reducing cash by 1% and increasing allocation to bonds. There were no changes made to fund selection in July.

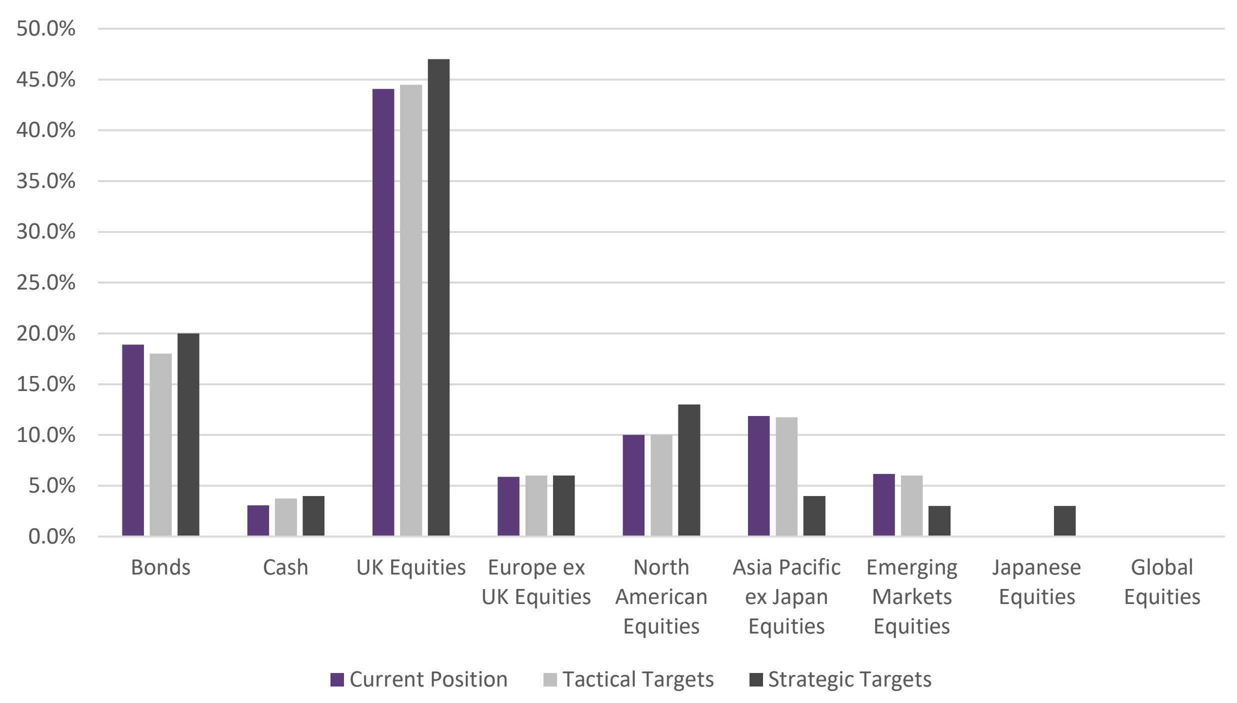
Providence was behind the IA Mixed Investment 20-60% Shares sector by c.1.6 percentage points during July.

Longer-dated bond funds were ahead of their shorter-dated peers within the portfolio over the month and the performance of all was positive in absolute terms.

The L&G Asian Income strategy lagged the IA Asia Pacific ex Japan sector during July. Its performance was hindered by its value-bias with an overweight allocation to Australia, underweight to China and a bias toward energy and basic materials stocks.

The majority of underlying UK holdings were behind their respective sectors over one month. The strongest performer within UK Equities during this period was the Aviva Investors UK Listed Equity Income fund, ahead of the IA UK Equity Income sector by c.0.6 percentage points.

Select



There were no changes made to asset allocation and/or fund selection in July.

Select was slightly under the IA Mixed Investment 40-85% Shares sector over one month.

During July, all underlying bond funds had a positive absolute return.

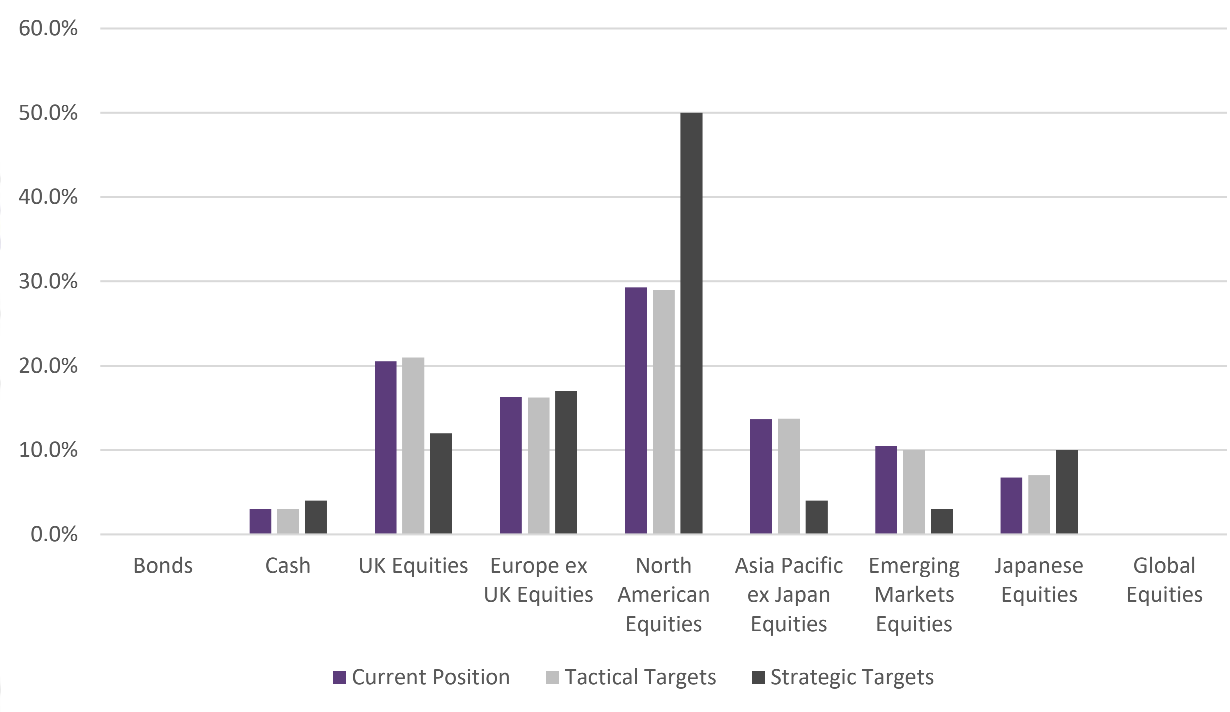
Within Asia Pacific, the relatively weaker performance of the BlackRock Asia strategy was offset by the stronger performance of the Schroder Asian Income fund over the month, demonstrating a well-balanced pairing.

In July, the only underlying European fund was just behind the IA Europe ex UK sector and one of the two underlying US funds outperformed the IA North America sector.

The UBS Global Emerging Markets Equity fund was ahead of the IA Global Emerging Markets sector by c.1.8 percentage points over the month and was the strongest performer in the portfolio in absolute terms during this period.

The SVM UK Growth strategy was the strongest performing UK holding within Select over 1 month, ahead of the IA UK All Companies sector by c.3.7 percentage points.

International



There were no changes made to asset allocation and/or fund selection in July.

International was ahead of the IA Global sector by c.1 percentage point during the month.

Within Asia Pacific, the Baillie Gifford Pacific strategy continued its strong performance, offsetting the relatively weaker performance of the L&G Asian Income strategy over one month.

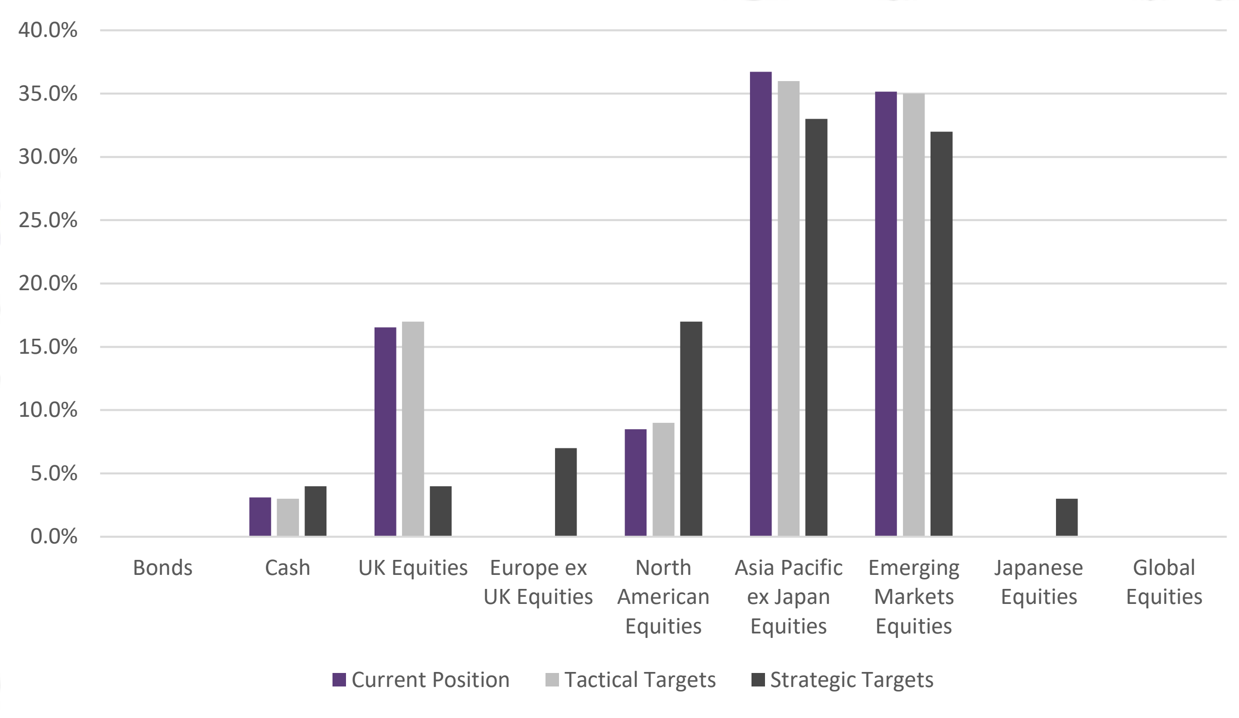
A similar equilibrium between funds was evident within Emerging Markets, with the stronger performance of the Threadneedle Global Emerging Markets fund counterbalancing the relatively weaker performance of the SLI Global Emerging Markets Equity Income fund during the month.

Both underlying Japanese holdings were ahead of the IA Japan sector in July, with the hedged Schroder Tokyo fund benefitting from strengthening sterling.

Two of the three underlying European funds were ahead of the IA Europe ex UK sector over one month, while the majority of underlying US holdings were in line with or ahead of the IA North America sector.

Underlying UK funds with a mid-cap tilt outperformed those with a large-cap bias.

Venture



There were no changes made to asset allocation and/or fund selection in July.

Venture was ahead of the IA Flexible Investment sector by c.2 percentage points during July.

Most underlying Asia Pacific holdings were in line with or ahead of the IA Asia Pacific ex Japan sector over one month.

Within Emerging Markets, all but one underlying fund was ahead of the IA Global Emerging Markets sector during July and the performance of all was positive in absolute terms.

The only underlying US holding marginally lagged the IA North America sector over the month.

As seen within International, underlying UK holdings within Venture with a more mid-cap skew outperformed larger-cap strategies.

Important Information

Please note that the contents are based on the author's opinion and are not intended as investment advice. This information is aimed at professional advisers and should not be relied upon by any other persons.

Any research is for information only, does not constitute financial advice or necessarily reflect the views of the author and is subject to change. It remains the responsibility of the financial adviser to verify the accuracy of the information and assess whether the fund is suitable and appropriate for their customer.

Past performance is not a reliable indicator of future performance. The value of investments and the income derived from them can fall as well as rise and investors may get back less than they invested especially in the early years.

Important information about the funds can be found in the Supplementary Information Document and NURS-KII Document which are available on our website or on request.

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