

Meeting held on 29<sup>th</sup> September 2020

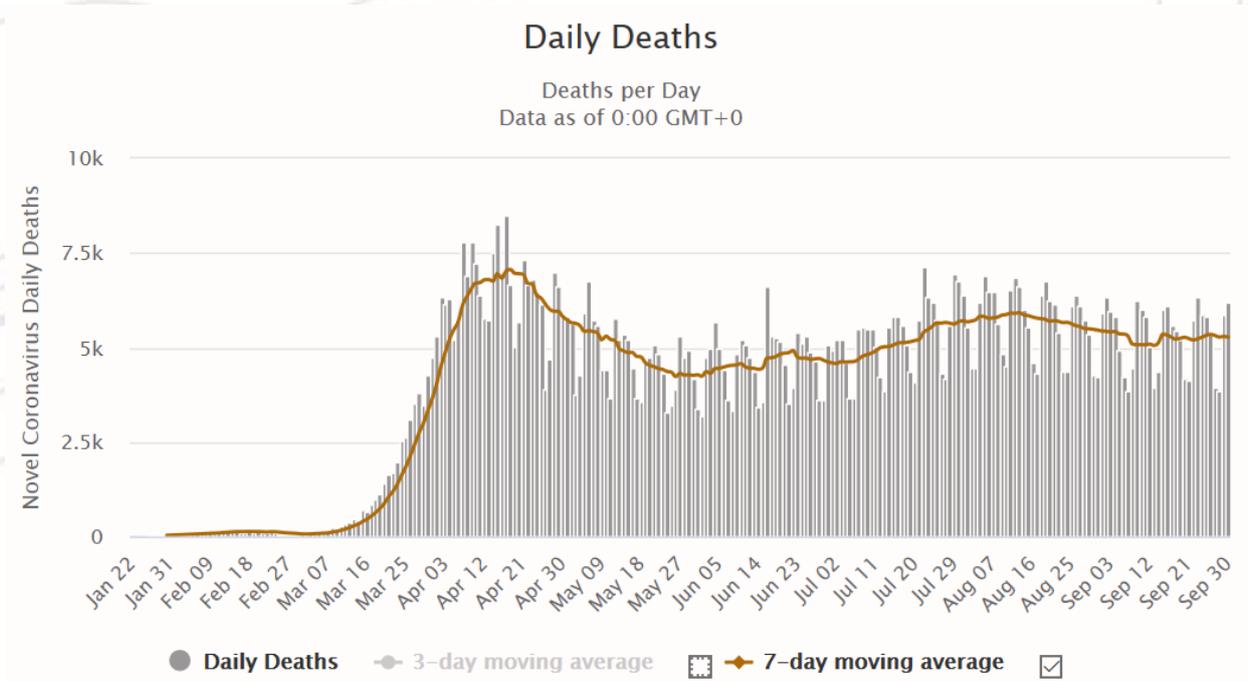
## Market Update

State-wide betting data at present hints at both an electoral college win for Joe Biden and a narrow one seat majority in the Senate. Florida and North Carolina remain very tight races and Trump would realistically need to win both of these states to have a chance of retaining the presidency. The first of three debates was due to take place this week and this will be one of the few chances that the public will get to see Biden, who has largely laid low during the pandemic, having been unable to campaign in person. It is possible the debates may hold more sway than in previous elections in this regard and, in a vacuum of political activity, we may see the sort of moment which swings public opinion (e.g. Ronald Reagan's famous "I am not going to exploit, for political purposes, my opponent's youth and inexperience" which sank Walter Mondale).

Should the presidency and senate turn Democrat, the potential for significant fiscal stimulus being passed is high. There are many potential pitfalls ahead, with a disputed election possible in light of the vast increase in postal voting due to the pandemic. The ideal situation for world equity markets is a clear victory, as far away as possible from the Floridan "hanging chads" debacle in 2000 which required machine and manual recounts before finally being settled by the Supreme Court. This may be a factor in the rush to nominate and confirm Amy Coney Barrett as the replacement for Ruth Bader Ginsburg's vacant seat, pushing the Supreme Court to a 6-3 conservative/liberal split, which would certainly benefit Trump in the case of a similarly tight election.

One element of US policy that seems likely to remain the same regardless of the outcome is the negative stance on China. Joe Biden would be likely to follow Donald Trump's lead in pushing back against intellectual property theft and trade imbalances. The issue of Hong Kong and the rejection of its special trading status due to the Hong Kong Security Law has been quiet in the press but remains concerning to globalisation advocates.

The Coronavirus passed 1,000,000 total deaths worldwide and growth in declared cases continues to be led by the USA and Emerging Markets countries. The death rate is showing signs of flattening out, with the continual increase in positive cases not leading to the same scale of deaths as in the initial wave of the pandemic. In the UK, a partial lockdown was re-imposed with the "rule of 6", but schools and business remained open, and those who can work from home were again urged to do so. Lockdowns across the world are becoming more specific in targeting badly affected areas, and this should allow for economies to broadly continue in their current upward trends.



Brexit showed improving signs of some semblance of a deal being struck, with media reports suggesting that negotiations could soon enter “the tunnel”; the final stage of constructing a deal document, carried out behind closed doors. This is what occurred shortly after Boris Johnson and Leo Varadkar broke the deadlock with the Withdrawal Agreement in late 2019. Estimates of a no deal remain uncomfortably high at c.30%, but the last scheduled round of talks, which began this week, may yet yield a positive result.

## Strategy

Equities continue to offer attractive yields, with many companies now reinstating dividends that had been suspended or cut due to the pandemic. In comparison, bond yields remain suppressed by central banks’ interventions, with a clear intent to keep borrowing costs low, while the pandemic remains a concern and debt continues to mount.

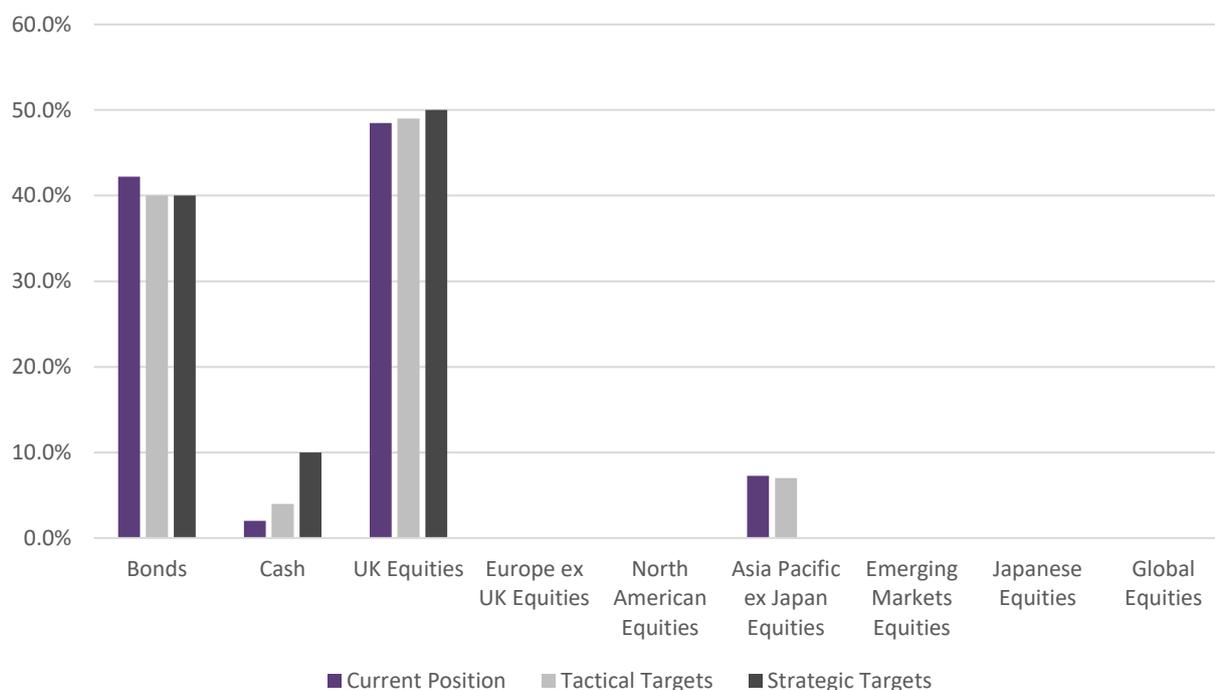
Our concern remains that duration of the bond market continue to rise as investors allocate towards longer dated issues in search for yield; such that only a small increase in inflation would erode the end value of bonds to a negligible return, or even a loss at maturity. This risk is not adequately priced into the market, and we see more attractive opportunity in short-dated corporate debt, which yields above inflation and reduces credit and duration risk for our investors.

The UK remains one of the most attractive equity markets on forward P/E ratios, with considerable upside in the event of a positive Brexit outcome. The companies are well regulated and offer robust quality for investors at a historically discounted price. Our equities are otherwise titled towards Asia and Emerging Markets, with a focus on countries that have handled Covid-19 well and are demonstrating vastly improved economic indicators and sentiment. We remain underweight to the US on the basis of excessive valuations, particularly at the top end of the indices, where an increasingly small number of companies make up the top 20% of the S&P500.

## Fund Comments

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

### Providence



**Asset Allocation:** The above chart, as of 29/09/2020, demonstrates the fund's current asset allocation and tactical targets set by the committee. No changes are being made to the tactical targets or current asset allocation this week.

**Fund Selection:** Providence fell slightly behind the IA Mixed Investment 20-60% Shares sector over 1 week, but was in line over 2 weeks.

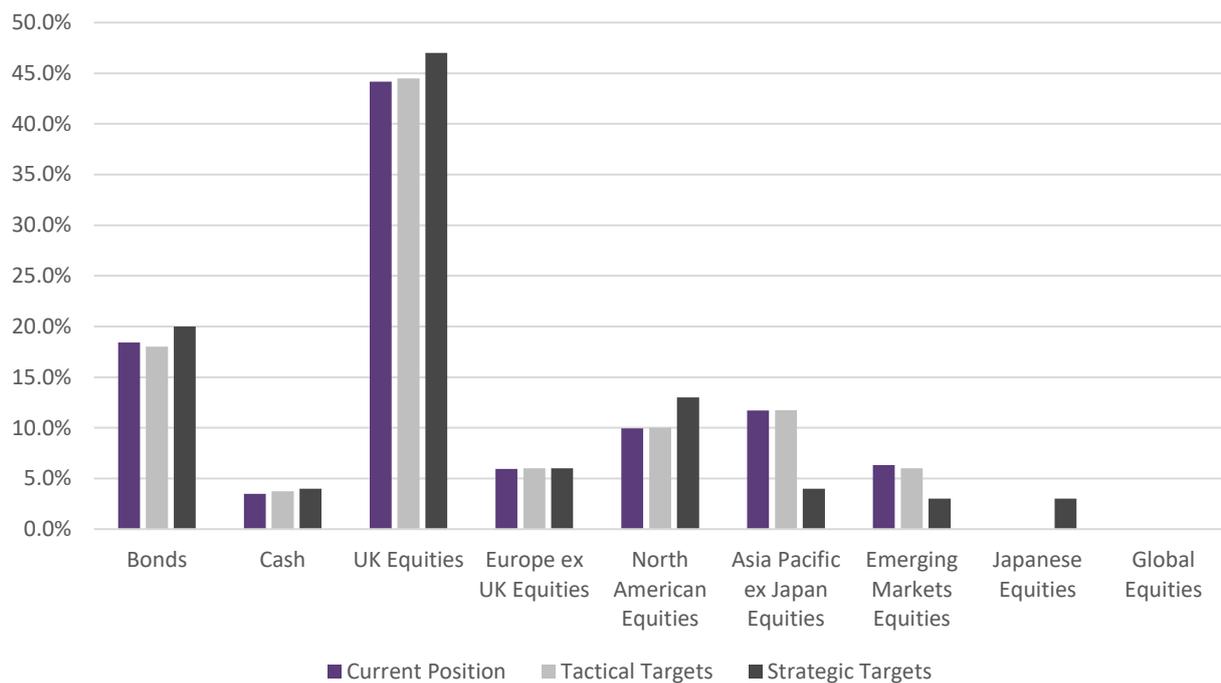
The L&G Asian Income fund was behind the IA Asia Pacific ex Japan sector over 1-12 weeks.

All but one of the underlying bond holdings were in line with or ahead of their respective sectors over 1 week, with short-dated bond funds ahead of their longer-dated peers during this time.

Within the UK, the GAM UK Equity Income fund was the strongest performer over 1 week at c.1.4 percentage points ahead of the IA UK Equity Income sector.

No fund changes are being considered at this time.

## Select



**Asset Allocation:** The above chart, as of 29/09/2020, demonstrates the fund’s current asset allocation and tactical targets set by the committee. No changes are being made to the tactical targets or current asset allocation this week.

**Fund Selection:** Select was in line with the IA Mixed Investment 40-85% Shares sector over 1 week and ahead over 2 weeks.

Within Asia Pacific, the Blackrock Asia strategy is steadily being replaced by the Fidelity Asia strategy.

2 out of 3 underlying bond funds within the portfolio were in line with or ahead of their respective sectors over 1 week and all were in line with or ahead over 2 and 12 weeks.

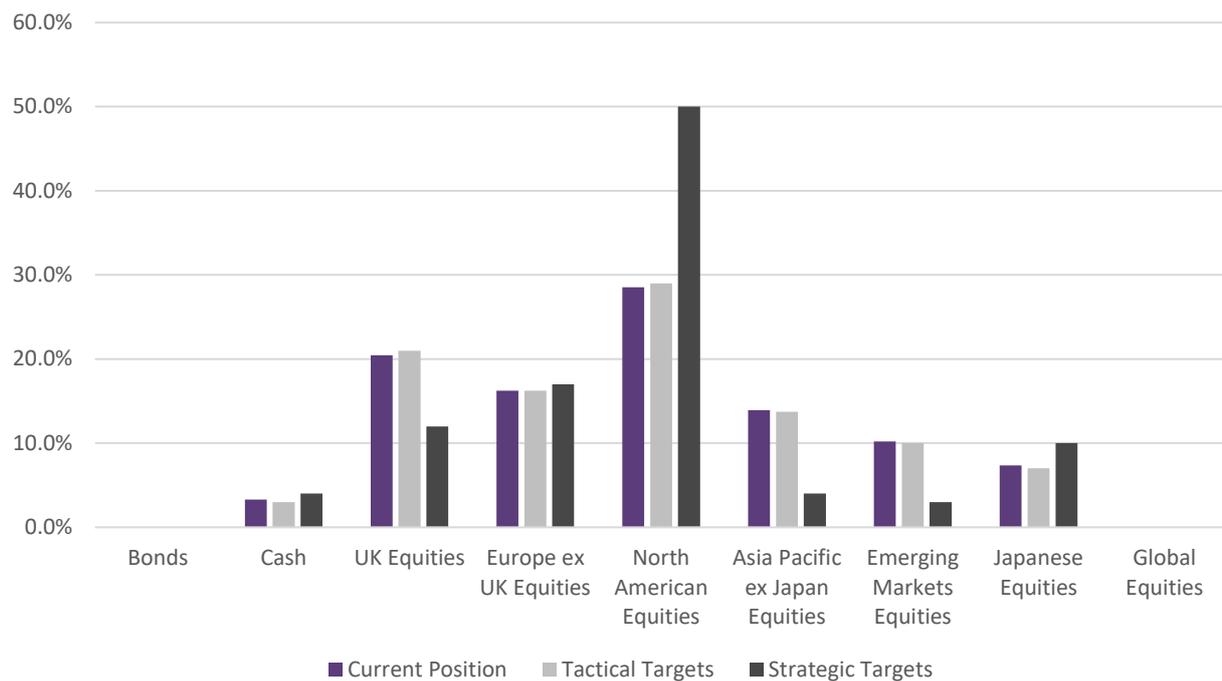
The underlying Emerging Markets and European holdings were in line with their respective sectors over 1 week.

The positive performance of the Vanguard US Equity Index outweighed the relatively weaker performance of the Fidelity Index US fund over 1-12 weeks.

Within the UK, at least half of the underlying holdings were in line with or ahead of their respective sectors through 1-12 weeks. The SVM UK Growth fund stood out as the strongest performer in the portfolio over 12 weeks, ahead of the IA UK All Companies sector by c.6 percentage points.

No fund changes are being considered at this time.

## International



**Asset Allocation:** The above chart, as at 29/09/2020, demonstrates the fund’s current asset allocation and tactical targets set by the committee. No changes are being made to the tactical targets or current asset allocation this week.

**Fund Selection:** International fell behind the IA Global sector over 1 week but was ahead over 2 and 12.

Both underlying Asia Pacific holdings lagged the IA Asia Pacific ex Japan sector over 1 week, however the Baillie Gifford Pacific fund was the strongest performer in the portfolio over 12 weeks, returning c.6.8 percentage points ahead of the sector.

Both underlying Emerging Markets funds were in line with or ahead of the IA Global Emerging Markets sector through 1-12 weeks.

The Blackrock Continental European strategy was the strongest performer within the underlying European holdings, in line with or ahead of the IA Europe ex UK sector over 1-12 weeks.

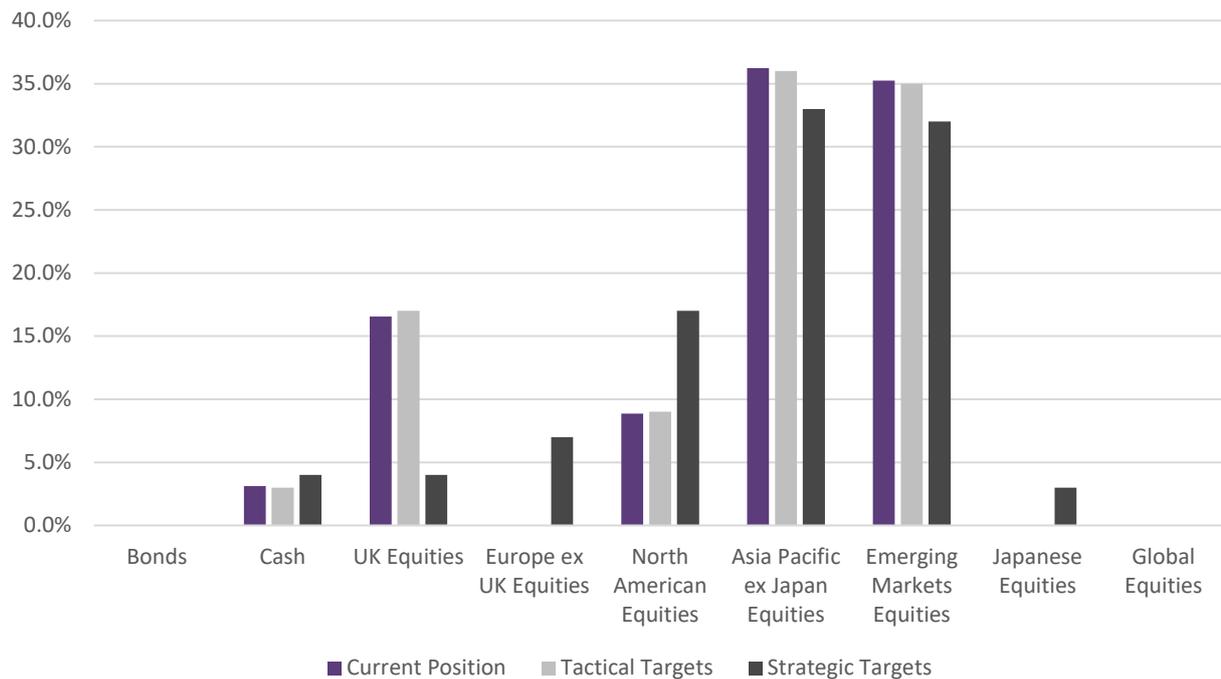
Both underlying Japanese holdings lagged the IA Japan sector over 1 week.

Although 3 of the 4 underlying US holdings lagged the IA North America sector over 1 week, 3 of the 4 were in line with or ahead over 12 weeks.

1 of the 3 underlying UK holdings was ahead of the IA UK All Companies sector over 1 week and the majority were in line with or ahead over 2 and 4 weeks.

The Committee have agreed to replace the JPM European strategy with the Fidelity Europe strategy following a period of prolonged underperformance.

## Venture



**Asset Allocation:** The above chart, as of 29/09/2020, demonstrates the fund’s current asset allocation and tactical targets set by the committee. No changes are being made to the tactical targets or current asset allocation this week.

**Fund Selection:** Venture lagged the IA Flexible Investment sector over 1 week but was ahead over 2 and 12 weeks.

All but one of the underlying Asia Pacific funds returned ahead of the IA Asia Pacific ex Japan sector over 1-4 weeks. The Fidelity Institutional South East Asia fund is in the process of being replaced with the Fidelity Asia fund.

All except one of the underlying Emerging Markets funds were in line with or ahead of the IA Global Emerging Markets sector over 1 week. The Threadneedle Global Emerging Markets strategy was the strongest performer in the portfolio over 12 weeks, ahead of the sector by c.5.9 percentage points.

The only North American holding outperformed the IA North America sector over 1-12 weeks.

One of the 3 underlying UK holdings was in line with or ahead of the IA UK All Companies sector over 1-12 weeks.

No fund changes are being considered at this time.

## **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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