Monthly Commentary

March 2020

Market update and portfolio positioning

The threat and fear of coronavirus has triggered a sustained pullback in global markets. Whilst this is undoubtedly worrying over the short term, we continue to remain committed to investing for the long-term prospects of the model portfolios. We would urge caution and restraint in these volatile conditions and do not recommend any change to client investment strategies, in light of recent events. We are investing in line with risk profiles and time horizons, and as such we would recommend clients remain invested in accordance with this, rather than attempt to time the markets.

The LGT Vestra Investment Committee has been meeting on a daily basis throughout this global pandemic. As of the week commencing 16 March, the Committee has issued the following commentary:

The decisive action taken by many countries in wide-scale quarantining across the world, and the continued spread of coronavirus has led to fear over reduced global demand, and disruption of supply chains. The impact of this was compounded by disagreements last week between OPEC members, leading to the oil price falling from $60 a barrel at the start of the year to around $30 today.

As has been well documented, equity markets have fallen dramatically in response to these events, for the most part indiscriminately meaning no geography, industry or size of company has been immune. Some sectors have been harder hit than others, with energy, value (companies that are lower rated than their peer group) and companies with smaller market capitalisations leading the sell offs, as well as those companies with complex supply chains and businesses reliant on discretionary consumer spending. One thing that has become clear is that the impact of the virus is likely to be with us at least for the medium term, and in response consumers are likely to save rather than spend in the face of adversity and uncertainty. The concern from investors is that this develops from a health crisis, to a liquidity crisis (as seen at the tail end of last week), to a financial crisis.

In response to this, governments have looked to limit the risk of a financial crisis. The Federal Reserve (Fed) in the US, the Bank of England as well as many other Central Banks have taken action to support liquidity in financial markets. As announced on Sunday 15th March, this includes the Fed buying at least $500bn treasuries and $200bn mortgage backed securities as well as cutting interest rates by a further 1%. Clearly monetary policy alone is not going to cure the virus or the economic damage being done by the measures to prevent its spread. For this reason, targeted fiscal policy to ensure people and businesses get through this crisis must be a part of the solution offered by governments. This has already been announced in Germany, with the government effectively underwriting the population and economy for the next few months. Whilst the tide is going out on financial markets, if we get significant fiscal stimulus in Europe and the US, the selling tide may begin to reverse.

At the end of last week the MPS Investment Committee had been considering investing some of the cash in the model portfolios in the equity market. The Committee acknowledges that company earnings' figures are going to be hard hit by the impact of coronavirus, but if investors are able to look through this bewildering level of volatility, there are opportunities to be had. However, we are not in the business of wanting, or indeed needing, to be brave in these hugely uncertain times. There are many variables at play in this ever changing story, so for the time being we feel it is prudent to maintain our current equity positioning with higher weightings of cash and bonds in the portfolios.

The quality/growth bias of the model portfolios has reduced the level of drawdown; funds such as Fundsmith and Morgan Stanley US Advantage have generated significant outperformance. The allocation towards high quality credit has added some ballast to portfolios; even the main strategic bond fund, Jupiter Strategic, has generated positive performance YTD due to its high weighting towards government bonds.

Due to the extreme moves in markets, an issue compounded by how (once a day), and when (usually at midday), the funds in portfolios price, by rebalancing the OEIC based model portfolios we are effectively trading blind. This is a final and very compelling reason NOT to trade in the short term whilst volatility in markets is at extraordinary and unprecedented levels.

MPS performance and volatility as at 29 February 2020

	Target*			Five year annualised	
	Volatility %	Return % pa	Maximum Loss %	Volatility %	Return %
Defensive	2 to 4.75	3 to 4.5	-5.0	3.66	4.04
Cautious	4 to 7	4.5 to 6	-9.1	4.34	4.48
Balanced	5 to 9	5.2 to 7.5	-13.5	6.14	5.11
Growth	8 to 13	6 to 8	-19.0	7.55	6.18
Adventurous	10 to 16	7 to 10	-25.0	8.89	6.87

* **Where targets are given, these are for indication purposes only; the actual figures achieved could be more or less than the ranges given.** Quarterly figures are net of underlying fund costs but gross of all other charges. Other charges include the LGT Vestra discretionary management fee, the platform custody charge, all adviser charges and where applicable any transaction costs (e.g. ptm / trading charges).

Investors should be aware that past performance is not an indication of future performance, the value of investments and the income derived from them may fluctuate and you may not receive back the amount you originally invested

MPS positioning as at 18 March 2020

	Defensive	Cautious	Balanced	Growth	Adventurous	Strategic Income
Fixed Income	**42**	**36**	**29**	**24**	**9**	**44**
Jupiter Strategic Bond	9	8	8	9	5	9
M&G Strategic Corporate Bond						9
AXA US Short Duration High Yield Bond	8	6	3	5		8
Vanguard US Govt Bond Index	9	7	6	4	4	5
Dimensional GBP Inflation Bond	8	9	7	6		
Invesco Perpetual Corporate Bond						9
CG Dollar	8	7	5			3
UK Equities	**9**	**14**	**20**	**26**	**28**	**17**
Merian UK Smaller Companies			2	4	5	
Trojan Income		2	2	3	3	
Marlborough Multi Cap Income						3
Schroder Income Maximiser						3
Threadneedle UK Equity Income	2	2	3	3	3	4
Schroder Income		1	2	2	2	
RWC Enhanced Income						5
CF Lindsell Train UK Equity	3	3	4	4	4	
L&G UK Mid Cap				3	3	2
L&G FTSE 100 Index Trust		2	3	5	6	
Vanguard All Share Index	2	2	2			
Liontrust Special Situations	2	2	2	2	2	
International Equities	**11**	**19**	**33**	**41**	**56**	**31**
North America	*4*	*5*	*10*	*10*	*12*	*7*
Morgan Stanley US Advantage	2	3	6	6	8	
Schroder US Equity Income Maximiser						7
T Rowe US Smaller Companies			2	2	2	
L&G US Index	2	2	2	2	2	
Asia Pacific & Emerging Markets	*0*	*3*	*9*	*10*	*18*	*5*
Blackrock Asia Special Situations			2	2	4	
Stewart Asia Pacific Leaders		3	2	2	2	
Schroder Asian Income Maximiser						5
Baillie Gifford Japanese			3			
Baillie Gifford Japanese Smaller Companies				3	6	
Goldman Sachs India					2	
RWC Global Emerging Markets			2	3	4	
Global	*6*	*10*	*14*	*21*	*26*	*19*

Fundsmith	3	6	8	7	8	7
Polar Capital Global Insurance Fund				2	4	
River & Mercantile World Recovery Fund				3	4	
Lindsell Train Global Equity						4
Artemis Global Income			2	2		3
Fidelity Global Dividend Hedged	3	4	4	7	6	5
L&G Technology Index Trust					4	
Alternatives	**24**	**19**	**8**	**6**	**4**	**6**
Absolute Return	*22*	*17*	*8*	*0*	*0*	*0*
Threadneedle Credit Opps	5	3	4			0
Artemis US Absolute Return	6	6				
Troy Trojan X	6	6	4			
Winton Absolute Return	5	2				
Property/Infrastructure	*2*	*2*	*0*	*5*	*4*	*6*
Lazard Global Listed Infrastructure	2	2		5	4	6
Cash / Liquidity Funds	**14**	**12**	**10**	**3**	**3**	**2**
BlackRock Cash	12	10	9			
Cash	2	2	2	3	3	2

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