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Vantage Point

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December 2023

Welcome to the inaugural edition of Vantage Point. Our ambition is to present a montage of some of the articles and thought pieces colleagues have written during the year to offer accessible yet thought provoking reading for our clients and investors to review during the festive season and beyond. We are also offering an insight to a few of the key members of the Alpha Beta Partners team in a less formal manner than usual corporate pen portrait. Our website delivers a lot of content and is frankly more transparent than many of our peers – we will aim to showcase some of the attributes here, hoping you will be stimulated to "go online".

Those of you who know us well will understand that we are always open to feedback (positive or negative) as information fuels our journey together. So, please reach out and get in touch.

If you're reading this over the festive season, on behalf of Alpha Beta Partners, we wish you a happy Christmas and a healthy 2024.

Thank you for your support.

Please refer to the important information at the end of this magazine.

Contents

Message from our CEO

Dear Clients and Friends,

It dawned on us when walking between meetings in London recently, that we will be six years old in 2024, and therefore we really ought to write to you marking the milestone, offering our thanks and best wishes.

We have grown at a rapid pace and are now pleased to carefully look after £1.95 billion of client assets, at the point of writing. That is some responsibility and one we are proud to fulfil by delivering our proprietary Risk First investment process underpinned by a strong value for money ethos and quality client service.

In the short message that follows I do not want to bore you with endless details of our journey so far, but I do want to make some important points of difference which underpin our philosophy and delivery culture.

> **"Truth be told, there were no good options available. So, we created our own."**


YOUR CLIENT'S STORY
Random Walk
Down Wall Street
BEFORE THEIR DIASPORA
INDIA
Michael Wood
ARAB GULF CITIES

Investment and risk engine:

We set out to democratise the "top end" institutional investment process for the benefit of advised retail clients, delivering the service through a straightforward value-for-money proposition.

Performance has been credible in each year so far and our Risk First approach, acutely tested through the pandemic market environment and again now, has never breached any stipulated risk corridor – keeping investor assets in line with the advice our clients give.

Our proprietary Dynamic Asset Allocation seeks to add value across the full spectrum of delivery mechanisms – passive, active and sustainable. Income strategies offer competitive yields for defensive and balanced profiles.

Our Core range has been awarded the coveted Defaqto 5 Diamond rating for five consecutive years, marking out the quality and repeatability of our investment approach. Likewise, our entire proposition has retained Defaqto's 5 Star rating for five years in a row.

Serving our clients:

We do not sell products – I can't think of anything worse! We collaborate with clients agreeing a destination and route map and, in many cases, end up manufacturing a complete Centralised Investment/Retirement Process designed to meet demanding standards and economics. We aim to keep everyone in the chain updated by effective communications about markets, performance, news and views.

Our digital delivery has grown massively in its popularity including podcasts, voice-over presentations and our traditional investment updates. Our portfolios are accessible across 14 retail platforms. It feels trite to say we place clients at the centre of what we do – but we actually do!

> **"Savoir-faire, or know-how comes with the richness of experience. That is something we have in spades."**

Taking the long road:

Delivering a viable value-for-money proposition from a standing start is not easy. We have not been tempted to deviate from our commitment to sensible transparent fees and our approach bears scrutiny when viewed alongside the peer group. Removing VAT has helped investors to control overall costs. Likewise our low standard fees have been maintained when set against an inflationary backdrop for just about all other overheads. The onset of the FCA's Consumer Duty regulation is a framework we naturally embrace - as a business we are always open to new ideas and improvements that can enhance investor outcomes.

Future forwards:

We are excited by the opportunity and gap in the market for a credible investment proposition to provide feasible withdrawals in retirement. Our collaboration with leading academics in this field is advanced and continues. Our sustainable portfolios link sustainability and investor suitability in a way which is rare indeed. We look forward to making more of it, supported by Consumer Duty. We have the skillset to offer an unconstrained long-only global macro type portfolio. We are investigating ways to bring this offering to market and to satisfy the demands of our clients.

Thank you again for your support and belief in us so far. The first five years have been truly rewarding and Alpha Beta Partners looks ahead to the horizon with optimism and a degree of excitement. Rest assured the successful formula we have devised so far will be reasserted to ensure a successful journey from today onwards. May I politely request, if you are not yet a client, please get in touch and let's find ways we can work together to improve the outcome for investors.

Geoff Brooks

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Nuclear Power, friend or foe, green or green washing?

Sep 27, 2023

'Net Zero Isn't Possible Without Nuclear. Confronting climate change means acknowledging hard realities. The world can't decarbonize without nuclear power — and it can't expand its nuclear output without rethinking the rules. Time is running short.' (The Washington Post).

In the world of sustainability and climate change, nothing seems quite as contentious or polarising as the debate about nuclear power. So what's it all about, and why is it controversial?

All matter in the universe is made up from tiny units called atoms and nuclear energy is the energy within the core of these atoms (their nucleus). There is a huge amount of this energy in an atom's nucleus, which can then be used to create electricity.

But before nuclear energy can be utilised to create electricity, it must first be released from the atom. With nuclear fission, atoms are split to release that energy. A nuclear reactor / power plant, is a sequence of machines that can control this nuclear fission process to produce electricity.

> **"Time is running short!"**
>
> (The Washington Post)

Nuclear reactors use the fuel uranium to produce nuclear fission, by forcing the atoms of uranium to break apart. During the split, the atoms release tiny particles called fission products, which then cause other uranium atoms to split, starting a chain reaction. The energy released from this chain reaction generates heat. This heat produced by nuclear fission warms the reactor's cooling agent, which is usually water, though some use molten salt or liquid metal. The cooling agent, from the heat caused by nuclear fission, then produces steam, which turns turbines. The turbines then drive generators, or engines that create electricity.

But when we hear the word 'nuclear' we are likely to associate it with very negative concepts which could lead us to conclude all things nuclear are bad and in opposition to a peaceful and sustainable world.

The most significant association being of course nuclear weapons, an explosive device that uses the force from nuclear reactions to produce destruction.

Where either fission (fission bomb) or a combination of fission and fusion reactions (thermonuclear bomb), produces a nuclear explosion. Both of these types of bomb release great quantities of energy from relatively small amounts of matter. As nuclear weapons are the most dangerous weapons on earth, and one can destroy a whole city, potentially killing millions, it's not surprising that the word nuclear can create fear. The cognisance of this threat has increased across civilisations, due to the ongoing war between Russia and Ukraine, and Russia having the most confirmed amount of nuclear weapons.

Then you have nuclear energy catastrophes, such as Chernobyl or Fukushima. In 1986 an accident occurred at the Chernobyl nuclear power station in the Soviet Union, the worst disaster in the history of nuclear power generation (according to the International Nuclear Event Scale INES).

The Chernobyl power station consisted of four reactors, each capable of producing 1,000 megawatts of electric power. The disaster occurred when technicians at reactor Unit 4 endeavoured to undertake a poorly planned experiment, which led to the chain reaction in the core going out of control. Several explosions produced a large fireball, and forced off the heavy steel and concrete lid of the reactor. This, and the ensuing fire in the graphite reactor core, released large amounts of radioactive material into the atmosphere, where it was carried great distances by air currents.

The Fukushima nuclear accident was also a major nuclear accident, this time at the Fukushima Daiichi nuclear power plant in Japan in 2011. It started due to the nearby 2011 Tōhoku earthquake and tsunami, which caused grid failure that damaged nearly all of the power plant's backup energy sources. There was subsequent incapability to adequately cool reactors after shutdown prevented containment, this resulted in release of radioactive contaminants into the neighbouring environment.

Investigations cited fault in both safety and oversight, including failures in risk assessment and evacuation planning. Further controversy exists in relation to the disposal of treated wastewater once used to cool the reactor. This has resulted in various protests in nearby countries. Despite these nuclear disasters and threats, there are many that feel that old-fashioned fission is positioned to make a comeback thanks to innovative new reactor designs, and the basic reality that sometimes the sun doesn't shine and the wind doesn't blow. This intermittency therefore requires either unrealistic large storage capacities, or more reliable sources of power to fill these gaps. As it stands these sources are mostly coal and natural gas, hence fossil fuels currently supply about 80% of the world's energy (Environmental and Energy Study Institute).

Nuclear is the obvious alternative to fossil fuels to plug the gap as a fission reactor produces clean, reliable, efficient energy regardless of the weather. In spite of the unease raised by rare accidents, such as those mentioned at Chernobyl and Fukushima, the risks of nuclear power are exceedingly low per unit of energy produced, and the newer reactor designs are even safer.

The dangers posed by radioactive waste are also said to be rapidly declining, due to improved tools and processes. It is also worth noting that according to the World Nuclear Association; 'in addition to producing very significant emissions of carbon, hydrocarbon industries also create significant amounts of radioactive waste. The radioactive material produced as a waste product from the oil and gas industry is referred to as technologically enhanced naturally occurring radioactive materials (Tenorm)'.

In truth, no industry is free from accidents, however they must learn from them. The risks associated with certain industries appear to be an acceptable price for humanity's dependency on the products and services provided.

With nuclear power, the high energy density makes the possible danger overtly obvious. Hence this has always been a factor in the design of nuclear power plants. Despite there being few accidents, the media appetite for nuclear power accidents remains high in contrast with other industrial accidents, which receive somewhat little news coverage.

According to the World Nuclear Association, a commercial-type power reactor simply cannot, under any circumstances, explode like a nuclear bomb, as the fuel is not enriched beyond about 5%, and a much higher enrichment than that is needed for explosives.

The World Nuclear Association also claim that the use of nuclear energy for electricity generation can be considered extremely safe, however every year, several hundred people die in coal mines which provide this widely used fuel for electricity. In the UK, Friends of the Earth commissioned a study by the Tyndall Centre, which used peer-reviewed academic literature, accompanied by literature from credible government, consultancy and policy sources.

It concluded in January 2013 that ***"Overall the safety risks associated with nuclear power appear to be more in line with lifecycle impacts from renewable energy technologies, and significantly lower than for coal and natural gas per MWh of supplied energy."***
(Friends of the Earth). Nuclear energy has the benefit of being one of the most cost-effective energy solutions available, but this is following the initial cost of construction. The ongoing cost to produce electricity from nuclear energy is much lower than the cost to produce energy from gas, coal, or oil, however this is unless those resources are situated near the power plant they supply. Additionally, Nuclear energy also has fairly low risks for cost inflation, unlike traditional fossil fuels that regularly fluctuate in price. Estimates say we have enough uranium on the planet to generate energy for the next 70-80 years (phys.org), and although this may not seem like a long

time, it is in fact longer than many fossil fuels are estimated to last. There are also other nuclear energy sources being explored to power nuclear power plants.

So going back to Nuclear bridging a renewable gap / being used in conjunction with renewables to produce sustainable power, let's revisit hydrogen and its different colours mentioned in my previous article (**https://www.alphabetapartners.co.uk/post/hydrogen-hot-air-or-hot-stuff**) where at this point we considered, green, grey and blue. Pink hydrogen, alternatively is hydrogen produced from nuclear energy, and it is proposed by some key proponents of a hydrogen led sustainable future to be the solution, when we cannot get a sufficient amount of energy through green hydrogen production to keep the grid going.

Representatives of EDF at the conference on Green Hydrogen, ran by the Western Gateway Partnership on 9th June 2023, discussed their approach to hydrogen using a combination of pink and green hydrogen projects to become leaders in low carbon H2. They are of the view that low carbon hydrogen produced by both renewables and nuclear is essential for reducing our dependence on fossil fuels.

A 100MW pink hydrogen production plant can produce 63% more hydrogen than a green hydrogen plant, which could significantly reduce the cost of hydrogen production and increase the competitiveness of hydrogen fuel cells in various industries. (AZoCleantech).

But let's be honest, nuclear energy is not itself a renewable energy as like fossil fuels it involves mining, and mining for uranium, which is not an environmentally friendly process. Open-pit mining for uranium is safe for miners but leaves behind radioactive particles, causes erosion, and even pollutes nearby sources of water. Underground mining isn't much better and exposes miners to high amounts of radiation while producing radioactive waste rock during extraction and processing.

However, if the alternative is fossil fuel mining, it's the lesser of two evils. In 2002, the IAE conducted a review, through combining existing studies in order to compare fatalities per unit of power produced for numerous leading energy sources. They examined the life cycle of each fuel from extraction to post-use and added deaths from accidents, as well as from long-term exposure to emissions / radiation. This found nuclear to come out as the best, and coal the deadliest energy source.

"There is no question," says Joseph Romm, an energy expert at the Center for American Progress in Washington DC. "Nothing is worse than fossil fuels for killing people."

(New Scientist). A further benefit to nuclear, is that nuclear fission releases much greater amounts of energy than simply burning fossil fuels like gas, oil, or coal. Nuclear fission is nearly 8,000 times more efficient at producing energy than traditional fossil fuels (enCore energy). That's a considerable amount of energy density. Because nuclear energy is more efficient, it requires less fuel to power the plant and therefore creates less

waste as well. Therefore, switching to uranium might give us the extra time we need to find better and cleaner renewable energy resources and if in that time, scientists are able to turn nuclear fusion into a reality, then we would theoretically never run out of electricity ever again. Plus, some countries like India, China, and Russia are already working towards using the greener and more abundant thorium to power nuclear reactors. If we switch to thorium we will have even longer than 80 years of fuel available.

In 2019 the IEA reported that over the past 50 years, the use of nuclear power has reduced CO2 emissions by over 60 gigatonnes, which is nearly two years' worth of global energy-related emissions.

Although nuclear energy production does not create any emissions, it does produce radioactive waste that must be securely stored so it doesn't pollute the environment. While radiation sounds frightening, in fact we are continually exposed to minor amounts of radioactivity from rays or radon in the air we breathe. In lesser quantities, radiation isn't harmful, however the radioactive waste from nuclear energy production is extremely dangerous,

The storage of radioactive waste is a main challenge facing nuclear power plants. There is no way to extinguish nuclear waste, so the current solution is to securely seal it in containers to store deep underground. As technology improves, hopefully they will find improved ways of storing radioactive waste. Still, many environmentalists oppose nuclear power, citing the risk of nuclear meltdowns and the difficulty of properly disposing of nuclear waste.

Where do we sit? Is it ideal and without issues, no, but is it necessary, well if it helps us fight climate change in the time required, as a means to an end and in conjunction with renewables, and we don't have an available flawless alternative path then yes? Can we afford to be idealistic which in reality this would lead to a longer, heavier reliance on fossil fuels, which we have seen is far more dangerous than nuclear, or do we need to be more grounded and pragmatic.

As sustainable investors who understand the essential need to a transition to a low carbon and sustainable economy for people and planet, we are therefore realistic about nuclear, rather than an outright exclusion, we need to consider it case by case and how it sits with, and supplements, renewable tech and innovation, and maintain our diligence, as part of our journey to lower emissions and combatting climate change.

This pragmatism and positioning is echoed in Rishi Sunak's most recent speech on Net Zero (20th September 2023) where he stated, 'we're building new nuclear power stations for the first time in thirty years. Just this week, we took a significant long-term decision to raise funding for Sizewell C - putting beyond all doubt our commitment to decarbonising our power sector.

And later this autumn, we'll shortlist the companies to build the new generation of small modular reactors.

Balancing Act: The significance of fixed income

Sep 21, 2023

Multi-asset portfolios, true to their name, are designed to achieve specific outcomes for clients - whether that's generating total returns or securing stable income streams. This entails investing across various asset classes, spanning equities, bonds, cash, and alternatives. The essence of a diversified multi-asset strategy lies in capitalising on distinct asset behaviours in response to changing market dynamics, a key element of which is understanding asset correlations.

Diversification, achieved by allocating investments across asset classes with different risk return profiles and correlation patterns, serves as a vital risk management tool. Low or negative correlations among assets enable risk mitigation during market stress, while favourable correlations harness the potential of thriving markets. This approach aligns with the core purpose of multi-asset investing – delivering attractive returns or income with prudent risk management, making it a resilient strategy adaptable to evolving market landscapes.

“Low or negative correlations among assets enable risk mitigation during market stress, while favourable correlations harness the potential of thriving markets.”

In the art of constructing successful investment portfolios, achieving balance among various asset classes is paramount. Fixed income, represented by bonds, plays a pivotal role in maintaining this equilibrium. Fixed income strategically counters potential volatility from assets like equities or commodities when integrated into multi-asset portfolios.

This strategy aims to cultivate diversified portfolios that optimise returns while managing risk, providing investors with resilient investment solutions. Investment managers strategically employ fixed income as a ballast in their portfolios. This is due to the fixed income behaviour in market sentiment shift or turbulence.

One of the core principles in bond investing is the inverse relationship between market interest rates and bond prices. When interest rates in the market go up, the prices of fixed-rate bonds typically go down. Conversely, when market interest rates decrease, bond prices generally rise.

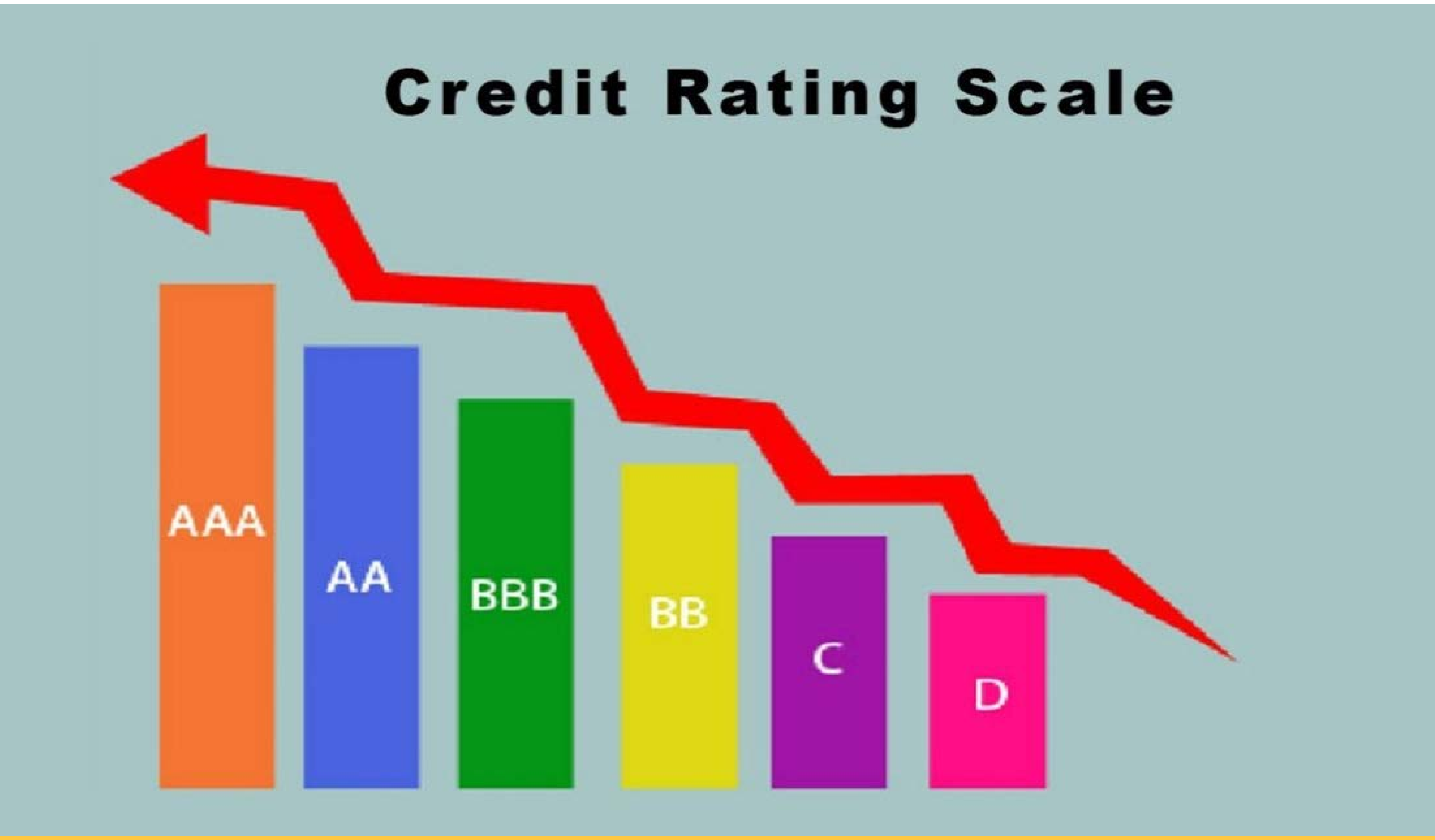
Understanding Fixed Income Credit Quality

Here's how fixed income credit quality and coupon rates are interconnected:

Credit Ratings:
Credit rating agencies like Moody's, Standard & Poor's (S&P), and Fitch assign credit ratings to bonds and issuers based on their assessment of credit risk. These ratings provide an indication of the credit quality of the issuer and the associated default risk.

High Credit Quality:
Bonds issued by financially stable entities with a low risk of default receive higher credit ratings (e.g., AAA, AA, A). These bonds are considered "investment-grade," and they typically offer lower coupon rates because investors are willing to accept lower returns in exchange for safety.

Lower Credit Quality:
Bonds issued by entities with higher default risk receive lower credit ratings (e.g., BBB, BB, B, C). These bonds are considered "speculative" or "junk" bonds and typically offer higher coupon rates to attract investors due to the increased risk.



Risk-Return Tradeoff:

The coupon rate on a bond is determined by a variety of factors, with credit quality being a significant one. In general, higher credit quality bonds have lower coupon rates because they are less risky investments. Conversely, lower credit quality bonds offer higher coupon rates to compensate investors for taking on greater risk.

Investor Preferences:

Investors have different risk tolerance levels and investment objectives. Some investors, such as pension funds or conservative investors, may prefer higher credit quality bonds with lower coupon rates for the stability and reliability of income. Others, like speculative investors or those seeking higher returns, may be willing to invest in lower credit quality bonds with higher coupon rates.

Market Conditions:

Economic conditions and market sentiment can also influence the relationship between credit quality and coupon rates. During periods of economic uncertainty or financial market stress, investors may demand higher coupon rates for bonds with lower credit quality, further reinforcing the link between credit quality and coupon rates.

In summary, fixed income credit quality reflects the creditworthiness of the issuer and affects the coupon rates offered on bonds. Higher credit quality bonds generally have lower coupon rates, while lower credit quality bonds typically offer higher coupon rates to compensate investors for the increased risk of default. Investors must assess their risk tolerance and investment objectives when considering bonds with varying credit qualities and coupon rates.

Unlocking Investment Potential: Bond Sensitivity, Duration, and Convexity

In the realm of fixed-income investments, grasping the dynamics of duration and convexity is like having a trusty compass for your financial journey. Duration and convexity are invaluable tools in any bond investor's toolkit, helping them decipher the intricate dance between bonds and interest rates. By grasping the sensitivity of bonds to rate changes, investors can unearth opportunities to construct portfolios that are robust and adaptable, ready to thrive in the ever-evolving financial landscape.

Understanding Duration:

Duration risk is how sensitive a bond or a collection of bonds is to changes in interest rates. It takes into account factors like the bond's yield, coupon rate, and maturity. Short duration bonds typically reside at the shorter maturity end of the yield curve and are influenced by changes in monetary policy. Conversely, long duration bonds are positioned at the longer end of the curve and are typically affected by market expectations of the future economic environment.

In the bond market, longer-dated bonds often command a liquidity premium. However, when the market begins to offer less yield for longer duration bonds and more yield for shorter-duration bonds (short maturity), it can convey valuable information. This shift in yield patterns can serve as a signal, offering insights into changing market sentiment and expectations regarding interest rates and economic conditions.

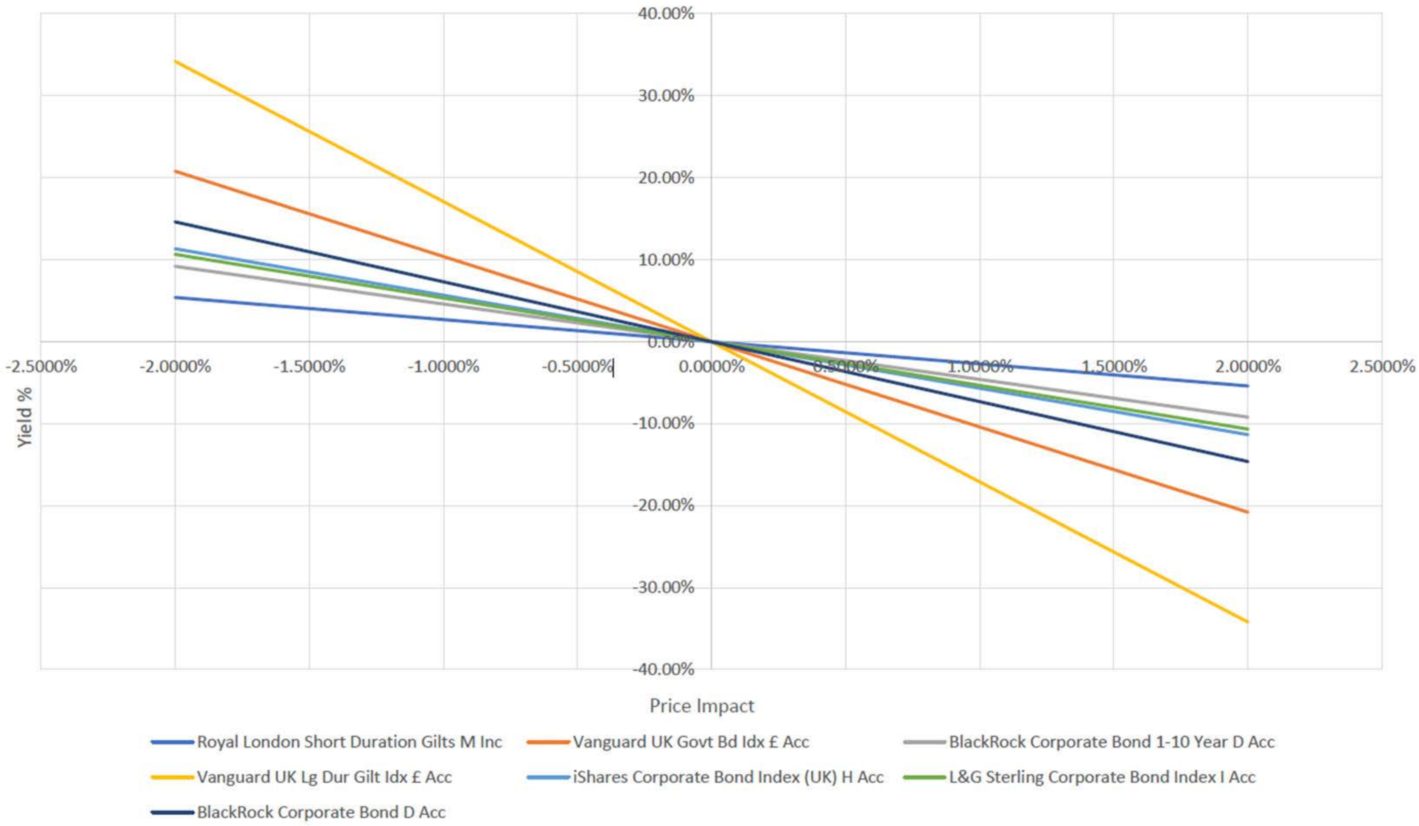
Exploring Convexity:

Consider convexity as the hidden gem within bonds. It unveils the curvature in the relationship between a bond's price and interest rates. While duration provides a linear perspective, convexity unveils the non-linear facets of bond behaviour. This non-linearity is where astute investors can uncover unique opportunities.

Convexity adds an intriguing layer to this opportunity. As rates climb, the non-linear nature of convexity can work in Favour of investors. Bonds with positive convexity may experience milder price drops than linear duration calculations might suggest. This can lead to attractive risk-reward scenarios, drawing in investors in search of resilience amid changing interest rates.

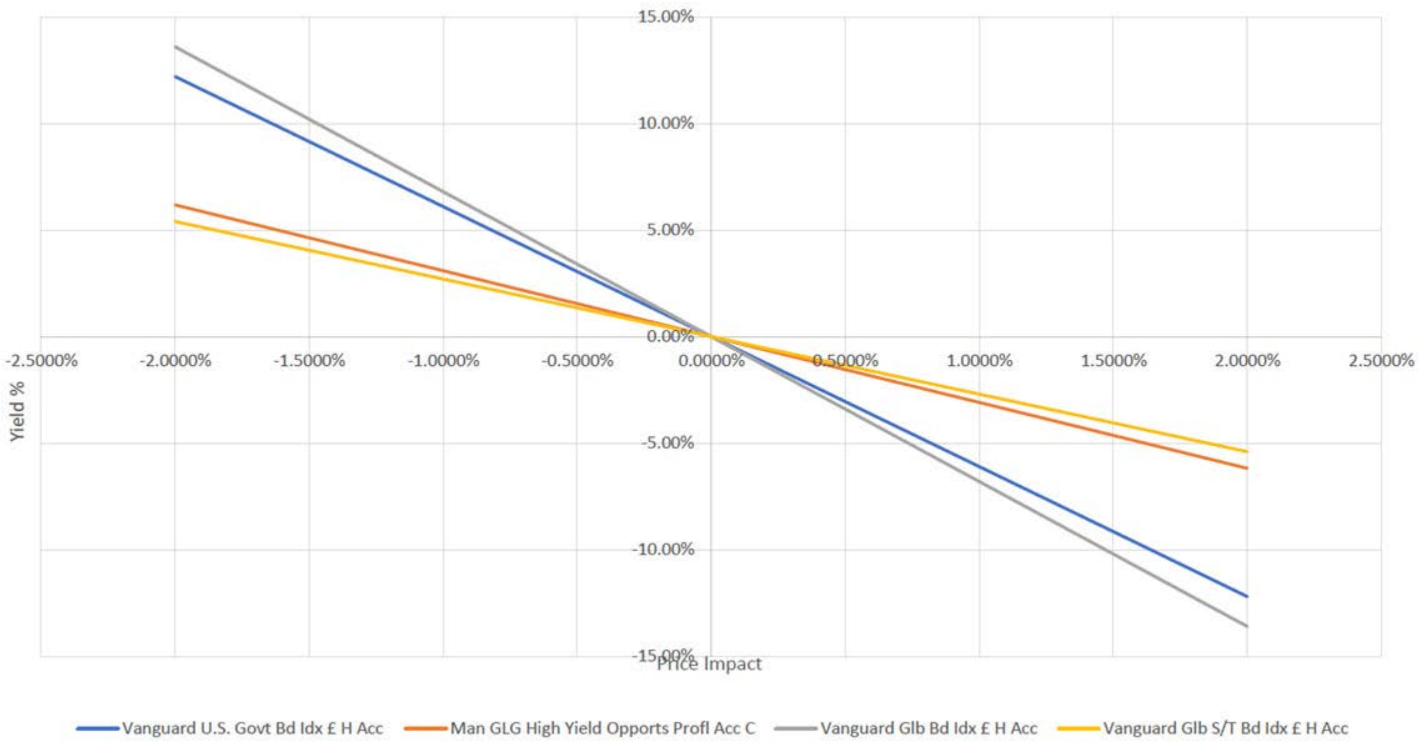
The impact of interest rate shifts on bond prices and total returns, is determined by duration and convexity. Higher duration implies a greater sensitivity to changes in yield, which, in turn, depends on both monetary policy and market expectations. This understanding equips investors to strategically navigate the bond landscape. They may opt for shorter-duration bonds, which exhibit lower sensitivity to rate hikes, effectively shielding against potential losses.

Price Impact of change in Yield (UK Bonds)



Source: Alpha Beta Partners, As at 24 August 2023

Price Impact of change in Yield (Global bonds)



Strategic Bond Duration: Navigating Short, Ultra Short, and Long-Term Bonds

Strategic Bond Duration: Navigating Short-Term Bonds

Use of Short Duration: Benefits & Pitfalls

In the vast landscape of investment options, short duration stocks, also known as short-term bonds, occupy a unique and valuable niche. Short duration stocks offer a valuable tool in the investment toolbox, providing stability, liquidity, and risk mitigation. However, they also come with trade-offs, including lower yield potential and limited capital appreciation.

To make informed investment decisions, Investment manager carefully weighs the benefits and pitfalls of short duration stocks against their specific financial objectives and risk tolerance. These financial Instruments offer a spectrum of advantages and potential drawbacks that savvy investors and managers must carefully consider.

Interest Rate Resilience:

Short duration stocks have shorter maturities, making them less affected by interest rate fluctuations. In rising rate environments, they experience smaller price declines, preserving capital. Additionally, they provide steady income and are less exposed to credit risk.

Liquidity and Risk Mitigation:

Near maturity bonds are highly liquid, offering flexibility to adapt to changing market conditions swiftly. This liquidity makes them suitable for seizing opportunities or addressing immediate cash needs. Moreover, their reduced exposure to credit risk and issuer defaults enhances their appeal to risk-averse investors.

Lower Yield Potential and Limited Capital Appreciation:

Short duration stocks typically offer lower yields compared to longer-term bonds. This can be a drawback for investors seeking higher income or substantial capital gains. Additionally, they may not experience the same level of capital appreciation as longer-duration bonds when interest rates fall.

Reinvestment Risk and Opportunity Cost:

When short-term bonds mature, investors face reinvestment risk. If interest rates have fallen since the initial investment, reinvesting at lower yields can reduce overall portfolio returns. Focusing solely on short duration stocks may also result in missing out on potential gains from longer-term investments during certain market conditions.

Strategic Bond Duration: Navigating Ultra Short Term Bonds

Use of Ultra-Short Duration: Benefits & Pitfalls

Ultra short duration funds have gained prominence as an indispensable asset class, offering unique advantages that can bolster the resilience and performance of multi-asset portfolios.

By carefully assessing the benefits and challenges associated with these funds, investment managers can construct well-rounded portfolios that align with their specific financial goals and risk tolerance.

Capitalising on Market Fluctuations:
By identifying trends and patterns in the market, traders can buy low and sell high, Maximising profit potential within a compressed timeframe.

Risk Management:
Short-term investing can be a prudent way to manage risk. It limits exposure to market volatility and unforeseen economic events, as investors can quickly exit positions if conditions deteriorate.

Increased Trading Costs:
Frequent trading, a hallmark of short duration investing, can lead to higher transaction costs in terms of commissions and bid-ask spreads. Investors must carefully consider these expenses when formulating their strategies.

Market Timing:
Successfully navigating short duration stocks often requires precise market timing. Mistimed entries and exits can lead to losses, making it crucial for investors to stay informed and adaptable.

Tax Implications:
Short-term capital gains are typically taxed at a higher rate than long term gains. Investors should be aware of the potential tax consequences of short duration strategies and plan accordingly.

Strategic Bond Duration: Navigating Long-Term Bonds

Use of Long Duration: Benefits & Pitfalls

Long duration stocks can serve as valuable components within multi-asset portfolios, especially for those looking to maximise income potential and diversify their investments. While they offer the allure of higher yields and stability, investors should remain mindful of their sensitivity to interest rate changes and issuer-related risks.

Long duration stocks are often characterised by their extended investment horizon, presenting investors with both opportunities and considerations that require careful evaluation.

Maximising Income Potential:

Long duration stocks, similar to long-term bonds, provide the opportunity to earn a higher interest rate or dividend yield. This attractive yield is a result of the issuer's willingness to pay more in return for the certainty of locking in a known rate for an extended period. For investors seeking to maximise income in their portfolios, long duration stocks can be a compelling choice.

Diversification and Stability:

The inclusion of long duration stocks in a multi-asset portfolio can enhance diversification by introducing assets with different risk-return profiles. These stocks often represent well-established companies with a history of stable performance, offering stability and balance to the overall portfolio.

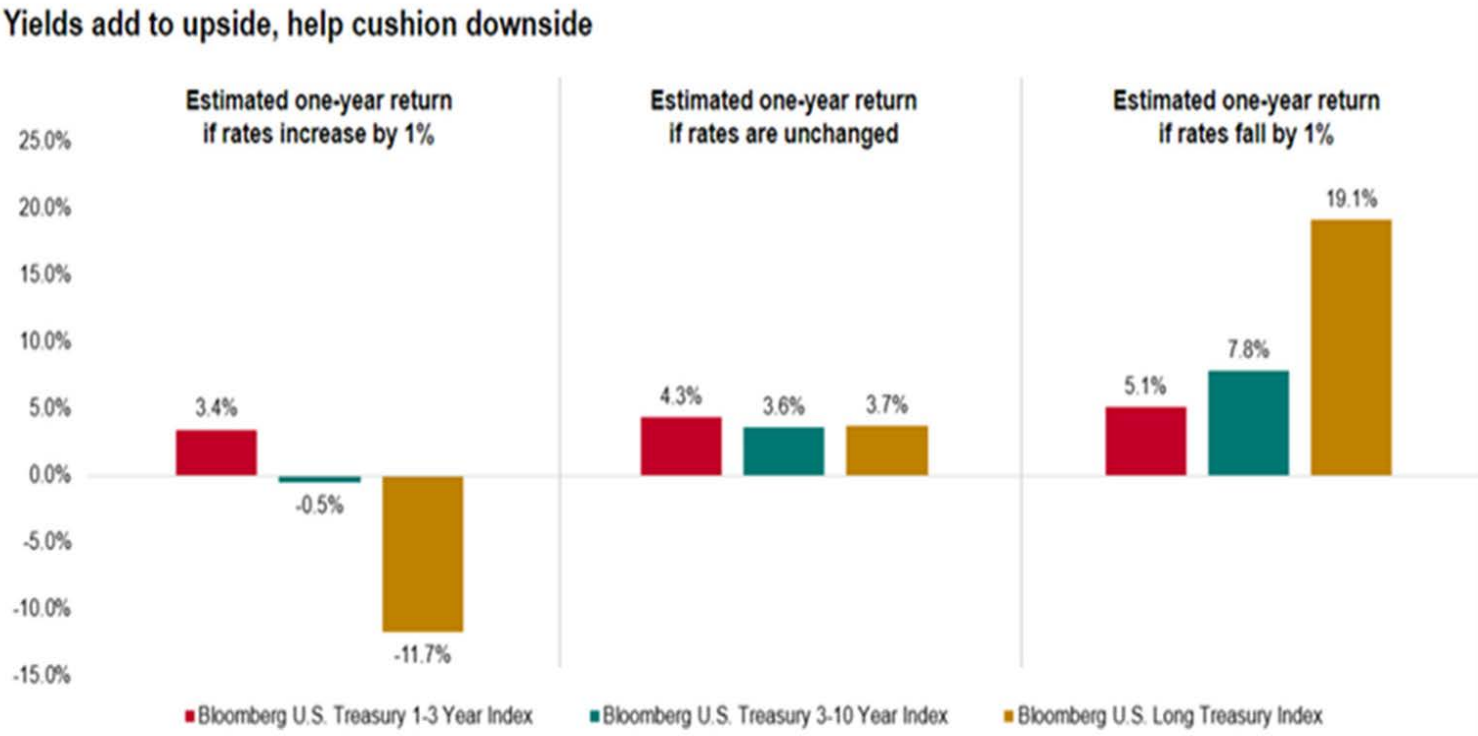
Interest Rate Sensitivity:

Long duration stocks share a characteristic with long-term bonds in that they are sensitive to interest rate changes. If interest rates rise, the value of long duration stocks may decline, impacting the portfolio's overall performance. Investors must be prepared for potential fluctuations in the value of these assets.

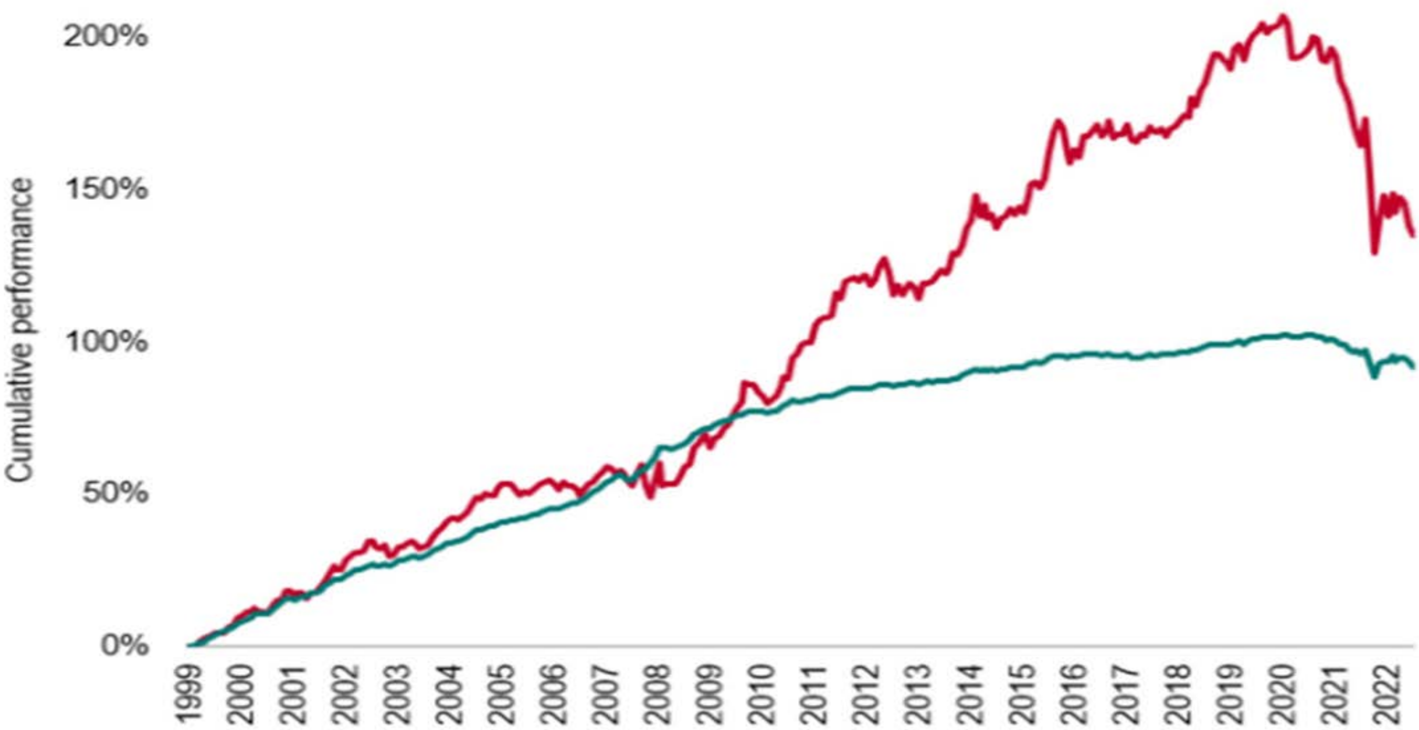
Issuer Risk:

Depending on the issuer, long duration stocks can carry a greater risk of default, particularly if the same issuer has other outstanding bonds or stocks that mature before the ones you own. It's crucial for investors to conduct thorough research on the issuer's financial stability and creditworthiness.

Longer duration benefits from interest rate cuts



Source: Vanguard, As at 31 January 2023



Source: Bloomberg, Data from 1 December 1999 to 1 June 2023

Strategic Navigation of Fixed Income Durations: Adapting to the Investment Cycle

In the world of investment management, the art of balancing fixed income weightings across various durations is both a strategic and tactical endeavor.

An investment manager's decision to move fixed income weightings across different durations throughout the economic cycle is a nuanced strategy driven by a blend of market dynamics, risk management, and investment objectives. It's a constant balancing act between capturing yield and preserving capital, all while adapting to changing economic conditions to serve the best interests of their investors.

Economic Expansion Phase:
In the early stages of an economic expansion, investment managers prioritise shorter-duration fixed income securities like Treasury bills, commercial paper, and money market funds. Short-term securities offer crucial liquidity and flexibility, enabling rapid cash deployment for emerging opportunities.

Mid-Cycle and Transition Phases:
During mid-cycle phases of the economic cycle, investment managers adjust by extending their fixed income portfolios tactically. This involves allocating to intermediate-term bonds like Treasury notes and investment-grade corporate bonds.

This strategy targets higher yields and capital appreciation as interest rates stabilise. Longer-dated securities in this shift often provide greater yields, potentially enhancing income and diversifying the portfolio, spreading risk for improved returns.

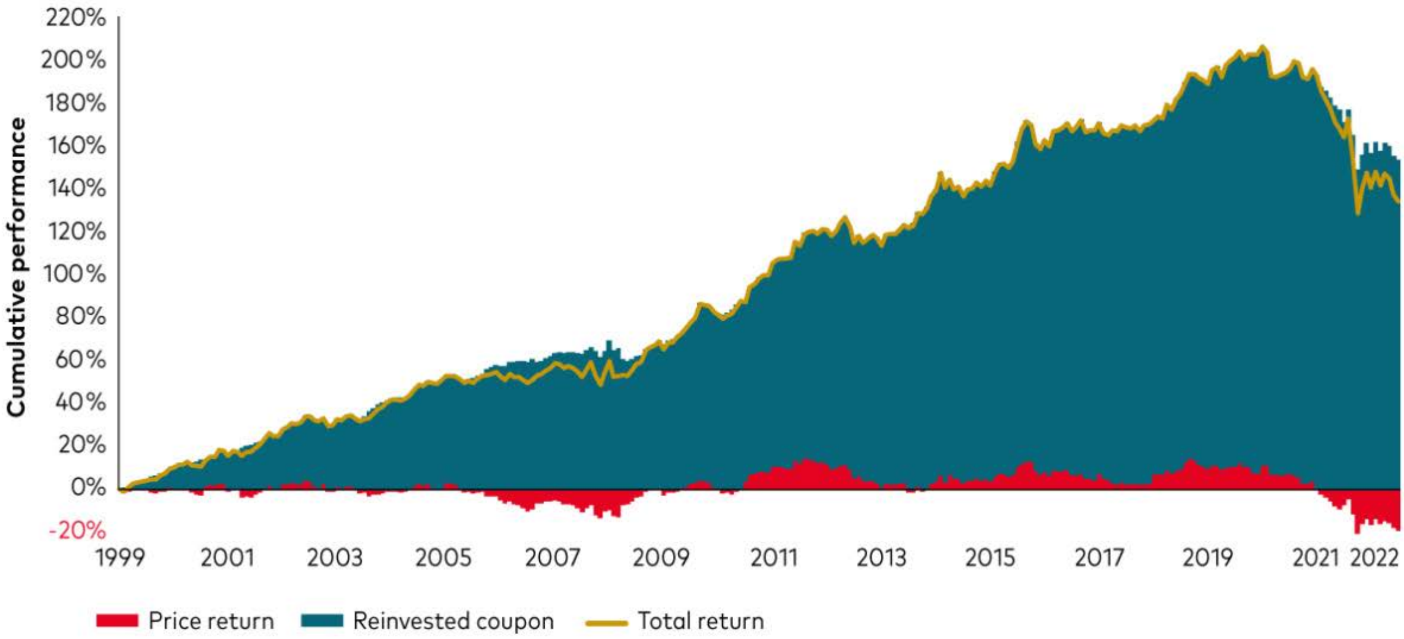
Late-Cycle and Pre-Recession Phases:
In late-cycle and pre-recession phases, investment managers exercise caution. They mitigate risk by reducing exposure to longer-duration bonds to avoid potential capital losses from falling prices and anticipate rising pre-recession interest rates.

As a defensive measure, they allocate more to short-term instruments like money market funds and short-dated bonds, providing safety during turbulent economic times. Shorter duration securities are favoured for their reduced exposure to market volatility, emphasising the preservation of principal.

Recession and Post-Recession Phases:

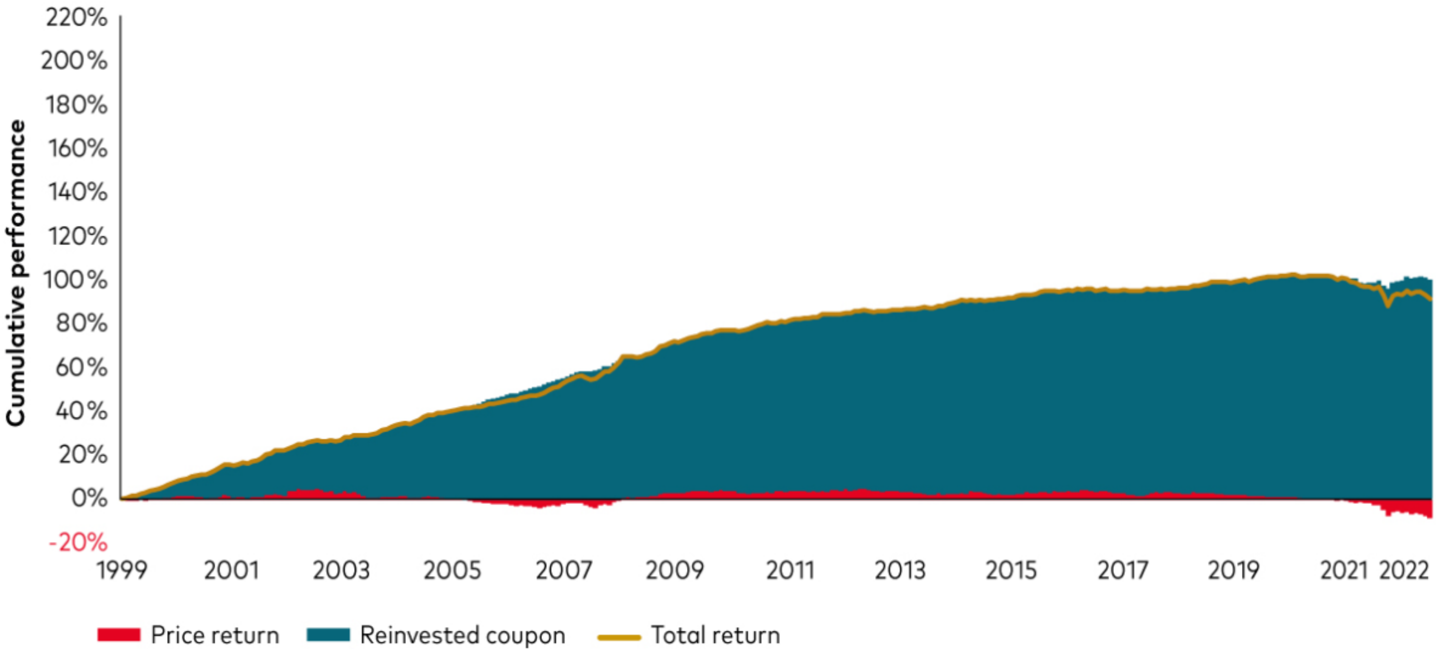
In recession and post-recession phases, investment managers prefer shorter duration assets for stability and liquidity, including cash equivalents and short-term fixed income securities. They also watch for opportunities, seeking attractive long-term bonds at discounted prices as low interest rates can make yields enticing, potentially capturing long-term value.

Long Vs. Short Duration Performance in different years.



Source: Vanguard, As at 31 July 2022

Total return analysis of long-duration UK government bonds.



Source: Vanguard, As at 31 July 2022

Aug 9, 2023

Unlocking the Rising Sun: Exploring the Appeal and Opportunities of the Japanese Stock Market

Japan's stock market is experiencing a surge in 2023, with the Nikkei 225 reaching its highest level since 1990. Contributing factors include attractive valuations, the return of moderate inflation, a weakening currency, unique monetary policies, and decent corporate governance.

After a wait of more than three decades, Japan's stock market is finally experiencing a moment in the sun. Despite some initial setbacks caused by banking sector shocks in March, the Japanese stock market has rebounded strongly and is now approaching all-time highs.

One of the key factors contributing to this surge is the relatively "cheap" valuations of Japanese stocks. Combined with a long-awaited return of inflation and a weakening currency, these conditions have propelled the Nikkei 225 index to surpass 33,000, reaching its highest level since 1990. Another boost to the Japanese stock market came in the form of an endorsement from Warren Buffett, one of the most successful investors in history. However, it is important to note that past performance is not a reliable indicator of future results.

> "Japan's stock market is experiencing a surge in 2023, with the Nikkei 225 reaching its highest level since 1990."


LABI
AKIHABARA
パソコン館
SLOT
LaOX
千代田区内は
路上喫煙禁止です。

Buffett has held a favorable view of Japan for many years, as many Japanese companies exhibit the traits and characteristics that align with his preferred investment approach of value investing. His entry into the Japanese market in April acted as a catalyst, inspiring others to follow suit.

In May 2023 alone, investors poured over $15 billion into Japanese stocks, marking the highest monthly amount since October 2017. However, caution is advised, as these rapid movements raise concerns about whether this is merely a momentum trade or if a potential "bubble" could be looming on the horizon.

The recent resurgence of the Japanese stock market is also attributed to significant changes in the Tokyo Stock Exchange, representing the largest overhaul of equity markets in Japan in over a decade. These changes aim to enhance the overall governance standards of listed Japanese companies, with a stronger focus on shareholder returns. This improved perception of corporate governance may lead to increased investor confidence and attract foreign investment.

Moreover, Japan stands out as an outlier among major global economies due to its approach to inflation and interest rates. While many other economies grapple with surging inflation, Japan has embraced it after years of deflation. The Bank of Japan has maintained interest rates below zero, in contrast to other central banks that are rapidly hiking rates.

Consequently, borrowing costs for Japanese businesses remain low, which has the potential to stimulate growth. This ultra-loose monetary policy further supports economic expansion. Additionally, Japanese companies have begun increasing prices for the first time in decades,

and the country's gross domestic product (GDP) grew by 0.4% in the first quarter of 2023. Although these measures have been instrumental in Japan's economic recovery, the weakening of the Yen has made imports more expensive.

This depreciation has bolstered exports, making Japanese goods relatively cheaper in the global market; an advantageous position for a country with a major exporting economy such as Japan.

Considering the attractive valuations, there are potentially intriguing opportunities and hidden gems within the Japanese stock market.

Some segments of the market remain misunderstood and under-researched, creating prospects for investors to uncover untapped potential.

Overall, Japan's stock market resurgence is driven by a combination of factors, including favorable valuations, the return of inflation, a weakening currency, improved corporate governance standards, and unique monetary policies. While the market's recent performance is encouraging, investors should exercise caution and conduct thorough research to navigate the potential risks and identify the opportunities presented by this evolving landscape.

Japanese shares are experiencing a flourishing year in 2023, with the Topix and Nikkei 225 indices reaching their highest levels since 1989 in May. While gains have been tempered for overseas investors due to a weaker Yen, Japanese equities have outperformed other developed markets.

The growing enthusiasm for Japanese shares can be attributed to two key factors:

Firstly, there is a cyclical aspect driving the momentum. Japan's economy has been relatively late in reopening after the Covid-19 pandemic, which instills confidence in corporate earnings growth for this year. Additionally, the Japanese stock market as a whole presents attractive valuations, further bolstering investor sentiment.

Secondly, a more significant development with long-term implications is the Tokyo Stock Exchange's call earlier this year for companies to focus on achieving sustainable growth and enhancing corporate value. This call specifically targeted companies with a price-to-book ratio below one, highlighting the importance of improving valuations for Japanese companies.

Reopening post- Covid

The reopening of Japan post-Covid also contributes to the upward trend in Japanese shares. The country experienced longer periods of pandemic restrictions compared to the United States and Europe. The reopening of borders to foreign tourists in October 2022 and the recovery of domestic travel benefited smaller, domestically focused companies operating in sectors like travel, leisure, and hospitality.

Furthermore, the delayed lifting of pandemic restrictions in China, a significant trading partner for Japanese companies, also plays a positive role in supporting Japanese shares. Chinese tourists constituted a substantial portion of total visitors to Japan, and the belated reopening of China post-Covid strengthens the outlook for Japanese shares.

Welcome return of inflation

In addition to these factors, another key driver behind the growing enthusiasm for Japanese shares is the welcome return of inflation. After three decades of low inflation and even deflation, Japan is experiencing a mild inflationary period. This shift from deflation to inflation is highly beneficial for the Japanese economy. Deflation tends to discourage investment and consumer spending, as people anticipate lower prices in the future. Conversely, moderate inflation instills confidence in companies to invest and consumers to spend, fostering corporate growth, wage increases, and higher consumer expenditures.

In summary, the strong performance of Japanese shares in 2023 can be attributed to the cyclical aspect of the late reopening of the Japanese economy, attractive valuations, the Tokyo Stock Exchange's call for sustainable growth, the recovery of domestic and Chinese tourism, and the welcome return of inflation. These factors collectively contribute to a positive outlook for Japanese equities, with the potential for sustained periods of higher corporate investment, wage growth, and increased consumer spending.

Japan CPI/Inflation Rate

Source: (tradingeconomics.com | Statistics Bureau of Japan)

Source: (tradingeconomics.com | Statistics Bureau of Japan)

Japan's Allure Endures: A Look at its Position as One of the Cheaper Stock Markets

Japan remains one of the cheaper stock markets

Schroders

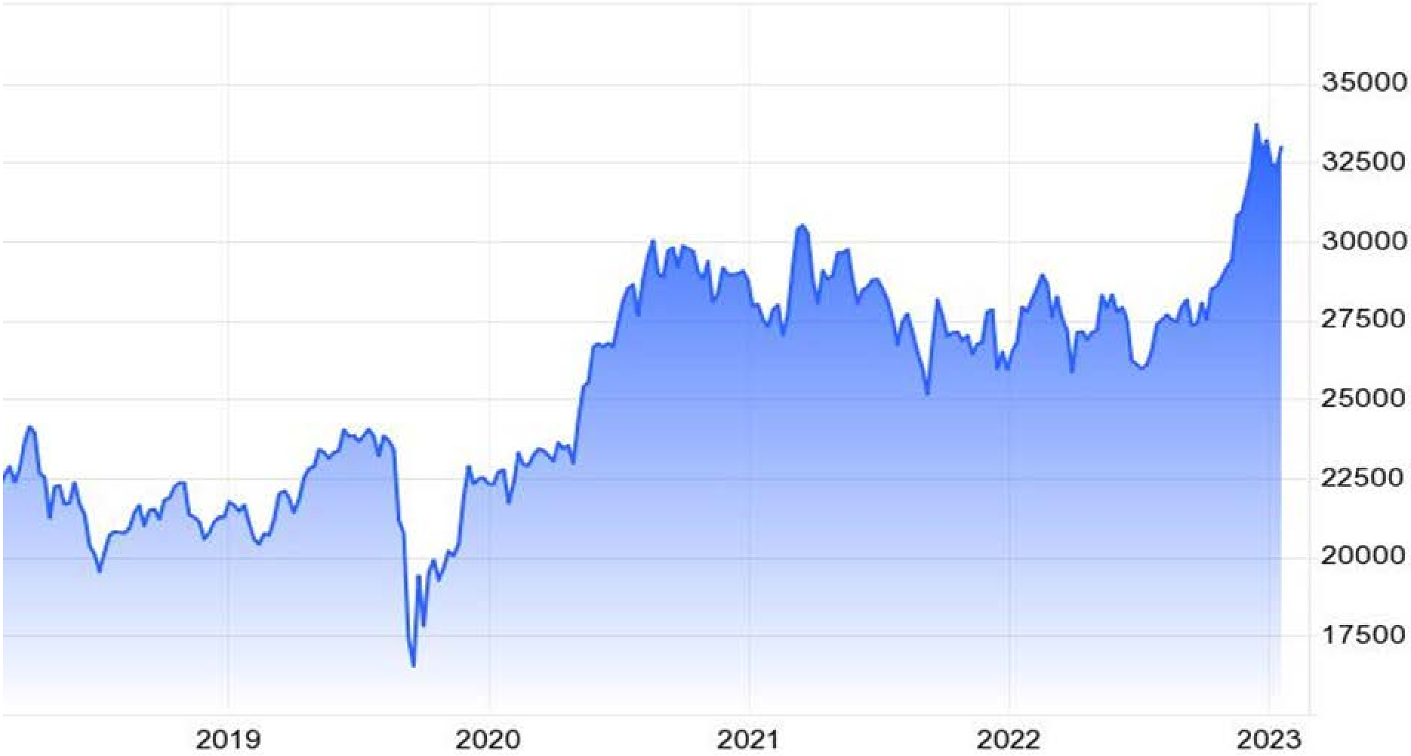
Valuation vs. 15-year median (% above or below)

Equity market	CAPE	Forward P/E	Trailing P/E	P/B	Dividend yield
US	28 (17%)	19 (14%)	22 (9%)	4.1 (44%)	1.6 (25%)
UK	14 (4%)	10 (-19%)	12 (-18%)	1.6 (-8%)	4.0 (-4%)
Europe ex. UK	19 (17%)	13 (-6%)	15 (-9%)	1.9 (9%)	3.1 (4%)
Japan	14 (-15%)	14 (1%)	17 (5%)	1.3 (4%)	2.4 (-14%)
EM	11 (-21%)	12 (1%)	13 (-4%)	1.6 (-4%)	3.4 (-20%)

Key:	<-25%	-25% to -15%	-15% to -5%	-5% to 0%	0% to 5%	5% to 15%	15% to 25%	>25%
		Cheap			Neutral		Expensive	

Sources: Datastream Refinitiv, MSCI and Schroders Strategic Research Unit. Data to 31 May 2023.
Figures are shown on a rounded basis. Assessment of cheap/expensive is relative to 15 year median. 608990.

Japan Stock Market Index (JP225)



Source: tradingeconomics.com

Sector Trends

Source: Simply Wall Street (2023)

	Price to Earnings	Forecasted Growth
JP Market	16.3x	9.0%
Healthcare	26.8x	11.2%
Telecom	24.1x	14.8%
Consumer Staples	22.6x	9.6%
Tech	22x	10.0%
Consumer Discretionary	17.2x	10.8%
Real Estate	15.4x	3.4%
Financials	13.5x	8.6%
Materials	12.9x	10.2%
Industrials	11.9x	4.7%
Energy	5.6x	-2.5%
Utilities	-534x	9.6%

Source: Simply Wall Street (2023)

BOJ's Curveball: Unexpected Shift in Yield Curve Policy Sends Ripples Across Markets Curve Markets

On December 20th, 2022; the Bank of Japan (BoJ) made significant changes to its approach in controlling bond yields as part of its monetary policy adjustments. The BoJ's previous target was to maintain a 0% interest rate for its ten-year bonds, with a permissible deviation of up to 0.25% from the target.

However, while the 0% target remains unchanged, the BoJ has now widened this permissible limit to 0.5%, allowing the interest rate on these bonds to rise. This move represents a subtle tightening of the money supply within the country.

Simultaneously, the BoJ also announced its intention to increase bond purchases, signaling a loosening of fiscal policy. This combination of higher rates and increased bond purchases has led many experts to view the BoJ's actions as an adjustment to its monetary policy rather than a strict tightening.

The change aims to enhance the sustainability of the monetary policy framework. The bank emphasized that it is not a shift away from yield curve control (YCC) or a signal of an imminent exit from the accommodative policy. Overseas market volatility intensified from around spring as a primary reason behind the adjustments. While the BoJ had maintained the ten-year bond yield below the 0.25% cap, this approach caused some distortions in the yield curve's shape. Thus, the bank concluded that the timing was appropriate to address these distortions and enhance market functionality.

In response to the news, the value of the Yen surged, and Japanese stocks experienced a decline. Investors reacted with concerns that this move might signify the beginning of a series of rate increases. However, BoJ's reassurances aimed to alleviate such anxieties, emphasizing that the actions were aimed at maintaining a balanced approach to monetary policy.

Overall, the BoJ's latest decisions regarding bond yields and fiscal policy demonstrate its efforts to adapt to changing economic conditions and maintain a flexible approach to supporting Japan's economic growth.

Responding with Caution and Adaptability: Navigating the Waves of Recent Market Movements

The global economy's interconnectedness means that policy changes in one part of the world can have significant impacts elsewhere. With inflation in Japan exceeding the 2% target set by the Bank of Japan, there are concerns about potential tightening measures to combat inflation. Japanese bank shares rose more than 5% on this announcement, indicating a sentiment shift toward the end of the era of low-interest rates.

As Japan is the world's largest creditor, fiscal policy tightening could prompt foreign investors to withdraw their investments, leading to falling asset prices and rising rates in other economies.

Investors are closely monitoring the Bank of Japan's actions going forward, and further policy adjustments may be delayed due to the strong market reaction. Additionally, with Governor Kuroda's term set to end soon, there is uncertainty about potential economic policy changes under a new governor's leadership.

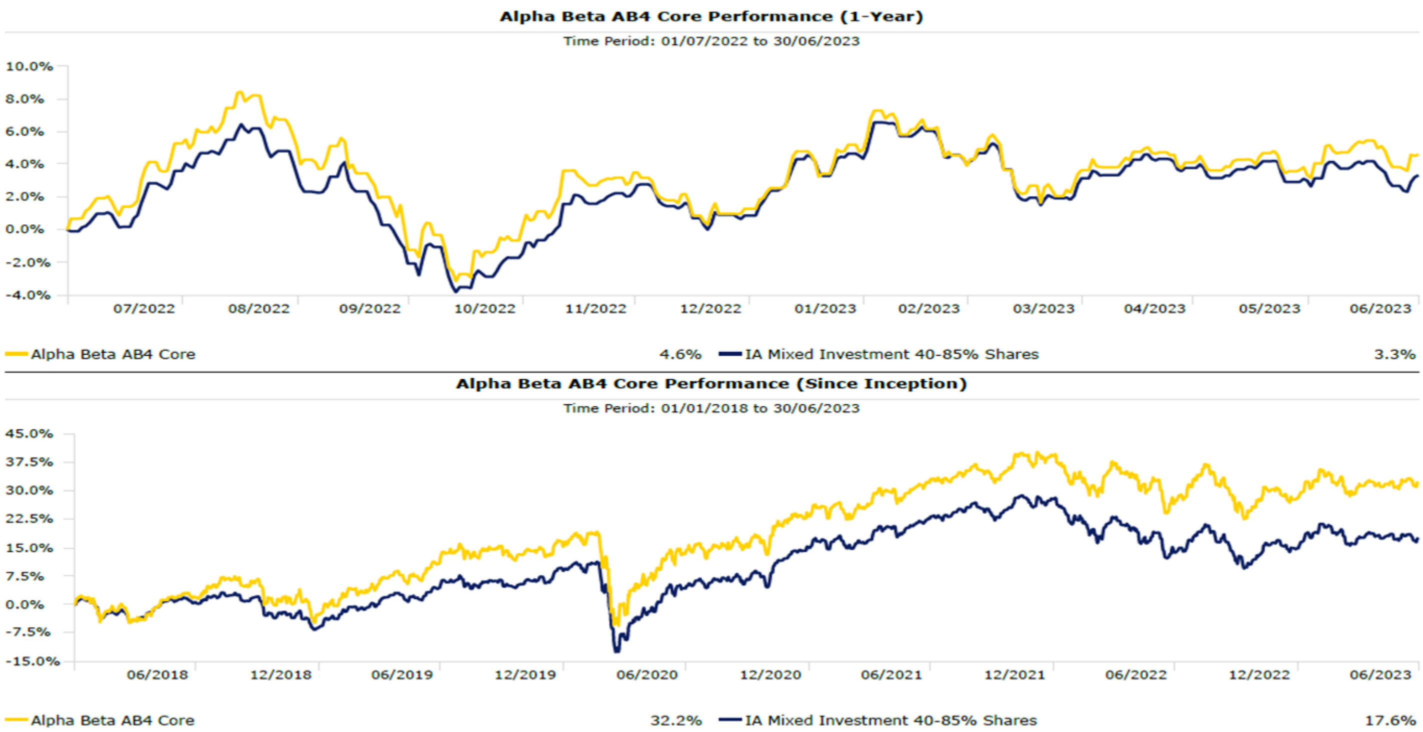
Amidst the interlinked global economy, policy changes on the other side of the globe can reverberate with significant impacts back home. Japan, holds a pivotal role in the international financial landscape. The recent move by the Bank of Japan to tighten its yield curve policy, given the persistent inflation above the 2% target, has sparked concerns and market reactions worldwide.

In response to the uncertainty brought about by the tightening measures, ABP Investment Committee which previously allocated 9% to the Japanese asset class in December 2022, have taken prudent measures. Recognizing the turbulence in the current economic environment, ABP Investment Committee decided to reduce the weightage to the Japanese asset class to 7.6%. This strategic adjustment reflects the cautious approach adopted by investors as they navigate through the potential impact of Japan's policy changes on global financial markets.

As the situation evolves, many investors will closely watch the Bank of Japan's actions and communications going forward. The market will remain vigilant, assessing the effectiveness of Japan's efforts to control inflation and the implications for the broader economic landscape. Furthermore, the upcoming change in leadership at the Bank of Japan with Governor Kuroda's term ending in the first half of the next year adds an additional layer of uncertainty to the economic policy outlook.

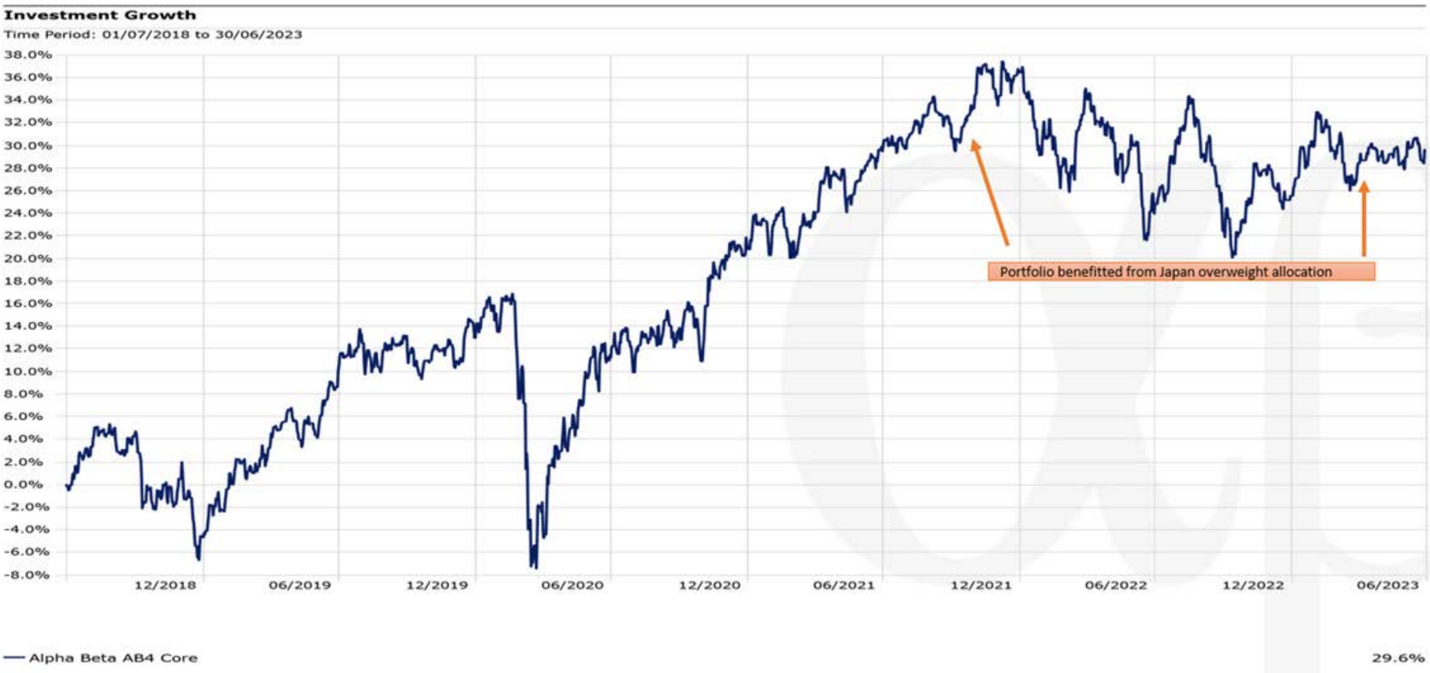
In the face of these intricate global dynamics, strategic portfolio reallocations such as the one taken by ABP Investment Committee signify a proactive stance in adapting to changing market conditions. As financial markets remain sensitive to policy shifts and economic indicators, investors must exercise vigilance and agility to safeguard their portfolios and navigate these turbulent times successfully.

Japan's Asset Class Performance in ABP Portfolio/s:



Source: Morningstar Direct

- **Percentage Allocation in the AB4 Portfolio since Inception: Between 9.5% and 12.54%**
- **Contribution of Japan Funds in AB4 Portfolio's Total Returns (Since Inception): 1.91%**
- **1-year return (01/07/2022 to 30/06/2023): 12.70%**



Source: Morningstar Direct

Back to Long Term Investing

Jan 11, 2023

The purpose of this article is to provide the freedom to "zoom-out" and look a little further towards the horizon than we might be able to do from a monthly investment reportperspective. Something further sighted and strategic than the typical "view from the bridge". There are clear risks in doing so and we evoke the quotation from Winston Churchill, "When the facts change, I change my mind. What do you do?"

Today, investors face crosswinds from diverse sources. Central banks are winding down their unorthodox monetary policies. Governments are less hesitant about deficit spending. Geopolitical tensions are ever present on a multi-regional basis. Thus, the global economy is braced for various shifts that are laced with layers of uncertainty. As ever, in uncertain times, the dominant tendency is to go back to basics. As this decade has progressed, long-term investing has been side-lined, as asset prices have increasingly deviated from their 'fair value'.

However, long-term investing is likely to stage a comeback, as investors transition to a new regime where prices gradually reconnect with their fundamentals as volatility rises. We also turn the spotlight on how ESG investing and long-term investing are morphing.

First a retrospective.
The biggest threat to capitalism in over a century resulted from within – a heady cocktail of toxic debt instruments famously sunk Lehman Brothers and ultimately led to the Global Financial Crisis (GFC) of 2008-9.

> **"To improve is to change; to be perfect is to change often."**

Thanks to emergency interest rates and the timely invention of a new economic antidote called quantitative easing (QE) the world did recover from the GFC. However, it took around a decade to do so. Emergency low interest rates and accommodative fiscal policies propelled risk assets to higher levels and those with wealth grew wealthier. An economic slump was avoided, asset prices were pushed higher again with valuations at stratospheric levels.

Furlough schemes and stimulus cheques were issued to ordinary people who were told not to go to work. All at a time when the delivery of goods and services were constrained by lockdowns and transportation bottle necks. The unpalatable side effect was to awaken the inflation dragon from a 40-year slumber. Inflation roared back across the world provoked hotter still by Vladimir Putin's Russia who weaponised energy supplies to the West and who continues to wage war against the people of Ukraine and an economic war further afield.

The hangover from central bank medicine applied in copious quantities is where we find ourselves today. Valuations on equities are finding a natural level whilst bond yields are positive and interest rates moving back to levels last seen decades before. For many this is tough indeed and whilst we believe much of the unwinding of excess has occurred, there is a little further to travel. So, as we "zoom-out" and cast our stare to the economic horizon, what do we see?

Source: Deutsche Bank and Bloomberg as at 17 November 2022

Let's begin with inflation – we consider US inflation to have peaked and we anticipate a steep decline in headline numbers, notably PCE inflation (the more regular central bank measure). The CPI measure which incorporates a large element of "shelter" costs, such as owner equivalent rents should also decline albeit lagging. The reopening of China's economy could create a further pull-down in inflation as cheap exports recommence once more.

However, we are more persuaded by the likelihood that demand for industrial commodities, including oil, will keep pressure on prices and the on shoring/near shoring trend that has begun will likely persist with higher costs of production the corollary. Inflation is notably difficult to gauge through the fog into the far distance. We anticipate inflation significantly lower than recent 40-year highs, but we envisage inflation structurally higher over the medium term than the near zero figures we have been used to for the past number of years. This of course triggers a view across the asset class spectrum.

Where monetarist policies are deployed to control inflation, it must surely follow that rates will trend lower over time as headline inflation falls. Central bankers and Finance Ministers most potent weapon is credibility with markets. Former Fed Chairman Ben Bernanke famously said. "Monetary policy is 98% talking and 2% action."

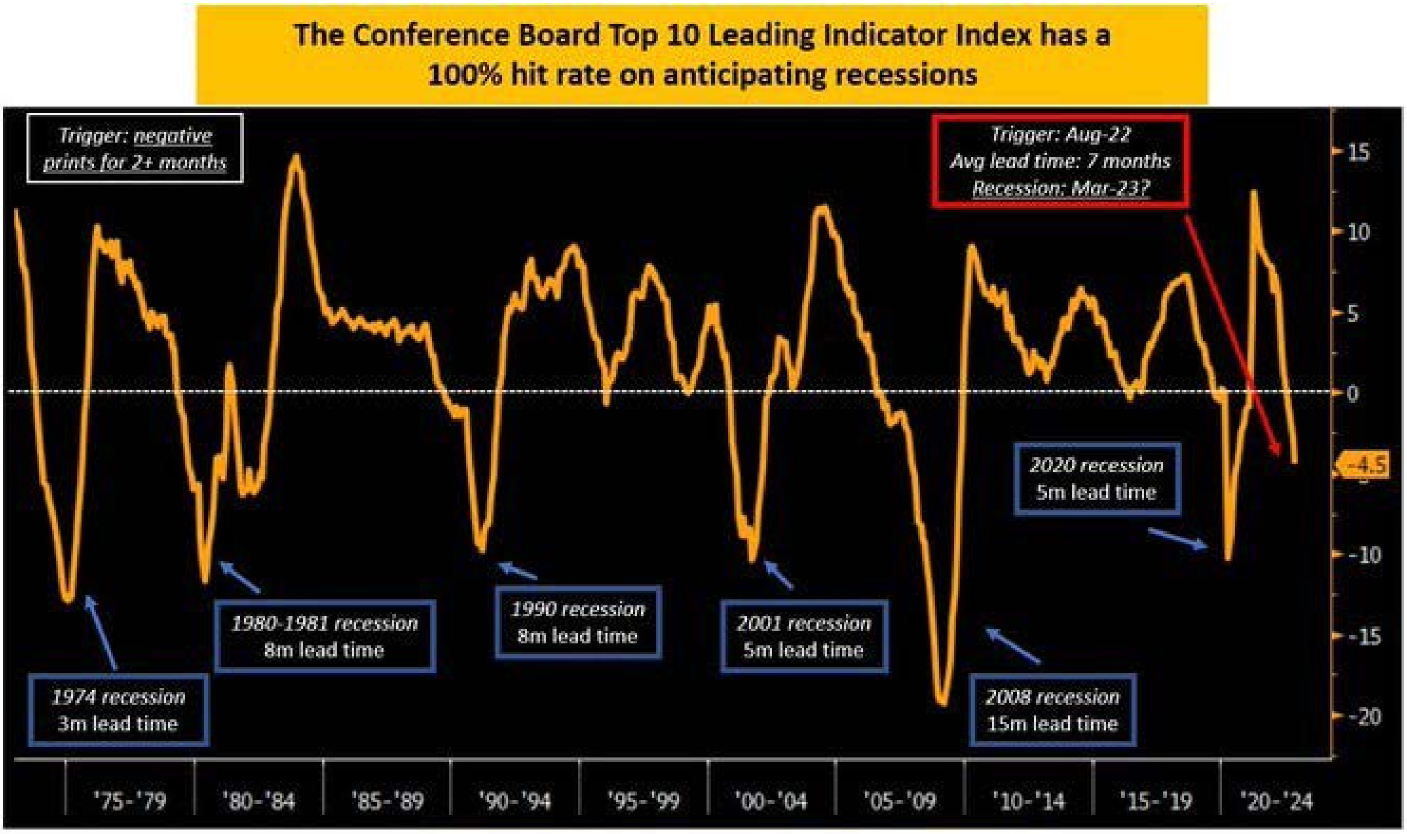
Where credibility is lost, havoc often ensues – there are various case studies to make this point, although Argentina springs to mind as does the UK mini-Budget of 2022. The Federal Reserve, the most powerful central bank on earth, is likely to hold rates higher during 2023 until it is persuaded the runaway inflation dragon is slayed.

We do envisage a pivot in rates to a downward direction later during 2023 but, like inflation over the long run, we see rates sitting structurally higher than the emergency levels they have been stuck at for many years post GFC and again during the pandemic years.

We note the R-Star measure, which denotes the real neutral rate of interest which equilibrates the economy in the long run, has nudged upwards slightly. Annuities are once again a legitimate consideration for retirees of a certain age and Money Market deposits and short dated bonds offer refuge for defensively minded investors.

The phenomenon of US dollar strength has been one bright point for investors during 2022. The reserve currency status bringing a buoyancy aid to globally invested portfolios. The shorter-term knock-on for the US dollar is likely to be a weakening from its historic highs relative to other currencies once market volatility softens. Again though, we envisage the Greenback remaining robust for the foreseeable future as the Chinese Yuan slowly builds a challenge over time. Quantitative easing since it was first used in Japan during the early 2000's has become a potent tool employed by central banks to stimulate economic growth when interest rates are already set very low. QE is finally being withdrawn and in fact liquidity is being sucked out from economies by quantitative tightening. This is set to continue in America, Europe, and UK.

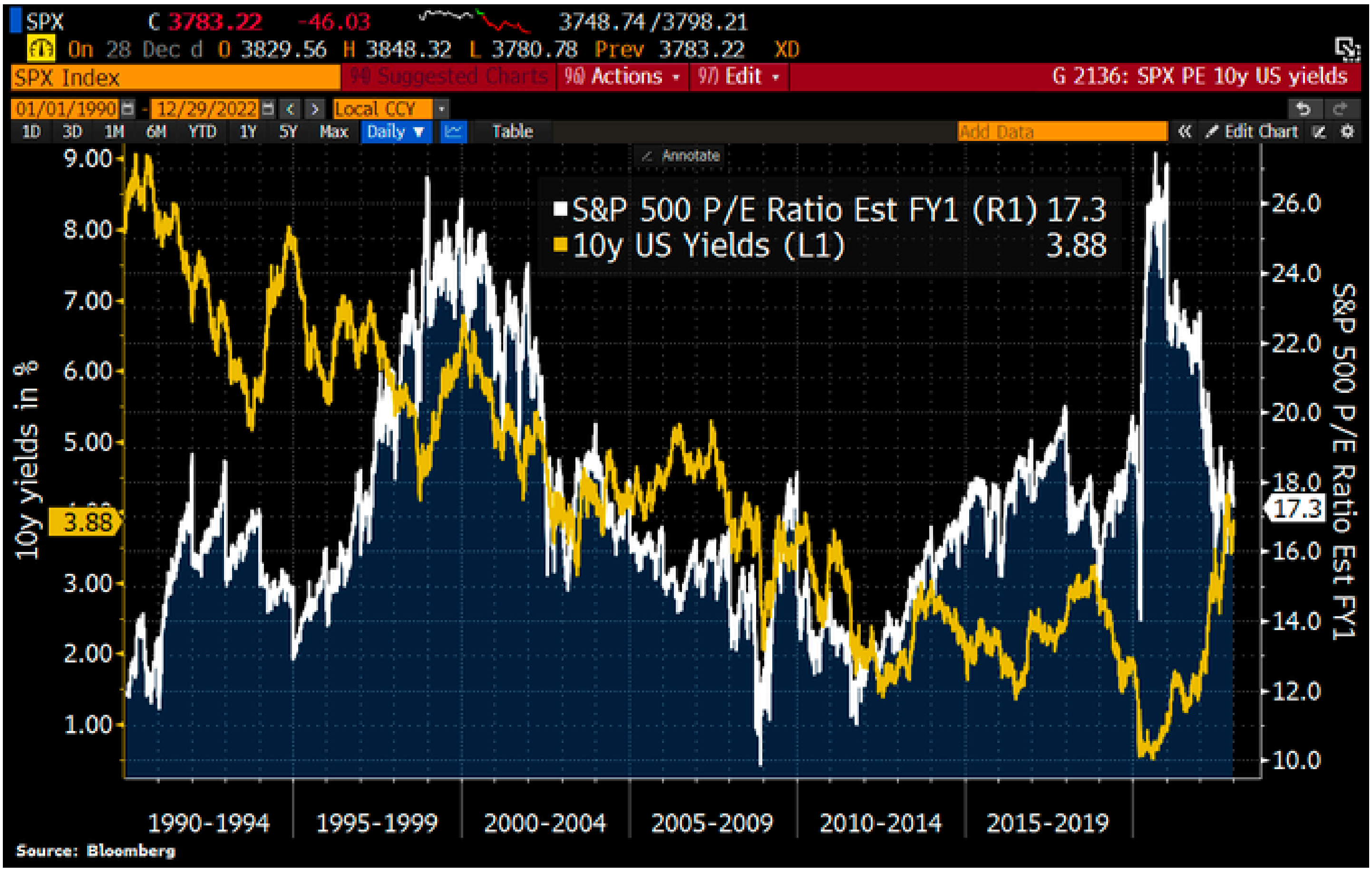
QE is now an ever-present option in the central bankers' tool kit and whilst its use has presently served its purpose, we would certainly not rule out tactical use in future.
Higher rates, QE and economic stimuli withdrawal coupled with an economic slowdown are all tools used to defeat inflation. This combination allied with a rapidly softening housing market and the early evidence of layoffs by employers leads us to conclude a recession in 2023 across major global economies is now a central case scenario.



Source: Bloomberg December 2022

The US Conference Board leading indicator index has a 100% accuracy rate for anticipating recessions in America as shown below in a chart from one of our research partners.

When the year-on-year change turns negative for 2 or more consecutive months the proximity of a recession is typically around 7 months distant. This equates to a possible US recession during the early part of this year which will in turn encourage a pivot in interest rate policy. Meanwhile we do anticipate some company earnings being disrupted by falling demand provoked by the economic slowdown. Other corporates will continue to prosper as their goods and services are considered staples.



Source: Bloomberg 28 December 2022

Those goods and service providers towards the base of Maslow's hierarchy of needs pyramid are likely to fair the best. Equity prices are likely to correct lower pushed down by the expectation of weaker earnings.

Once this pattern and a valuation point confirms a floor is in place, we are likely to become active buyers as the equity market re-enters a cyclical upswing. The all-important fixed income market has witnessed a rollercoaster ride in recent years.

Yields pushed into negative territory across the world by central bank action and then correcting higher based on QE withdrawal, higher rates all after a 40-year bull market for the asset class. Of course, this culminated with a positive correlation to equities at quite the worst time during 2022 leaving low risk multi asset investors in sour mood and provoking the worst performance for the staple 60/40 portfolio in over 100-years. The better news is that we envisage a return to relative normality in terms of their equity correlation with bonds as short-term interest rates begin the fall along with short tenor bond yields and thereafter the yield curve resuming a more typical shape.

Source: Getty Images June 2018

The long-term role of fixed income as an effective equity hedge in mixed asset portfolios resumes over the long run. Energy policy, or rather the lack of anything worthy of the name, has been something to create a hearty debate in recent years. Following the global slowdown and as economies pick up, we do envisage a potential energy demand inflection point.

We are avid fans of renewable sources but despite extensive roll-out there is no coordinated strategy to deliver the super-critical base load. The energy that provides the backbone of power generation when the wind does not blow and when the sun is not shining.

Germany prematurely shut down their nuclear facilities offering herself up to Russian gas as the sole base load supplier. When war in Ukraine ensued and Putin began weaponising natural gas, Germany was forced to re-open coal-powered energy production and classified biomass energy as "zero carbon", although it involved felling trees in Canada and shipping them across the Atlantic to Germany for production into heating pellets to be burned in furnaces.

We envisage a step up in modern nuclear energy production across developed markets which will enable us to make progress towards net-zero targets and provide base load security.

This is not an instant fix and will roll out over years, allowing for a strategic investment opportunity. While much maligned and misunderstood (populace response to Chernobyl, Fukushima etc) modern nuclear energy facilities and production are very safe with a carbon neutral footprint.

In this regard China, India, Pakistan, and South Korea are ahead of the pack, and we expect to see a step-change in Western nations with knock-on demand for related commodities including uranium. Energy is just one theme we are keen to explore within appropriate portfolios in future.

Demographics is of course relevant and important. We note India's emergence into the global economic premier league surpassing UK in terms of GDP output, ranked 5th largest economy in the world and soon to surpass China as the world's most populous nation, with more than 1.4 billion inhabitants. Four of the world's fastest growing nations between now and 2050 will be found in Africa.

Geopolitics has shaped 2023 and will remain the one notable aspect of global investment strategy that cannot be modelled. We expect the war in Ukraine to persist for some time yet, notwithstanding a momentous change of policy or leadership in Russia.

China's over indebted property sector, shrinking population and faltering urban migration programme weighs on its ambition to become the dominant world economic leader.

The West has begun to repatriate some manufacturing all of which cumulatively may stimulate China to invade Taiwan to seize semiconductor knowhow and re-establish itself with its own people and the Pacific region. We maintain vigilant observation.

Avoid another failure in Portfolio Risk Management

Feb 22, 2022

Over a decade ago, The Times of London published my article "How to Prevent Another Failure in Risk Management". 'At the time, a need for a multi-pronged approach towards risk management was stressed, comprising a combination of qualitative and quantitative techniques, for regulators to detect early signs of an imminent crisis.

Since then, it has generally been accepted that one of the main factors precipitating the 2008 financial crisis was an overreliance on risk models such as VAR (Value at Risk) by Central Banks, Regulators, and the Rating Agencies. This methodology assumed that asset prices were normally distributed and grossly underestimated the chance of extreme events. It also assumed that the correlations between asset prices assumed stability based on historical data.

A decade later, we are in a much better position now to implement the preventative approach, due to advances in technology and the availability of new types of diversified funds.However, with fears of another potential financial crisis looming, it is surprising to find that very few portfolio managers are applying the rigorous, albeit very intuitive, approach needed to reduce and manage the risks that could severely impact their investors' portfolios. There is much talk in the press about using technology where it can surpass human capabilities, and about harnessing it at every step by human judgment to check assumptions and produce information to facilitate decision making. Indeed, it is generally agreed that those jobs carried out by human beings will increasingly be replaced

> **"It has generally been accepted that one of the main factors precipitating the Credit Crunch was an overreliance on risk models such as VAR (Value at Risk) by Central Banks and Regulators."**

by automation, and eventually even tasks currently requiring human judgment will be replaced by artificial intelligence. However, as far as managing multi-asset portfolios in complex financial markets is concerned that is still very far away, despite the claims of many algorithmic trading systems.

The drawback with heuristic algorithms is that they are trained on past financial market conditions and are therefore unable to cope with completely new paradigms. Essentially, they fail due to model error and changes in a regime that the model cannot capture due to the constraints imposed by a model specification.

The alternative, purely qualitative/fundamental portfolio management, has difficulty synthesising the myriad of changing complex financial relationships which can provide valuable clues about asset price movements. This renders it unable to forecast market events, mispricing of downside risk, and the negative impact of the 'herding' mentality and investor overconfidence.

Clearly, a smart combination of the two approaches is needed – one that deploys quantitative techniques for complex technical and mathematical analysis, the results of which can be qualitatively analysed by experienced portfolio managers.

Such an approach is second nature in other professions, such as medicine, where stethoscopes, X-RAYs, scanning devices, and chemical tests are all part of the automated tool kit, used with judgment, to evaluate risks and reach diagnoses, At Alpha Beta partners, we offer a similar approach; where experienced portfolio managers harness the results of sophisticated quantitative techniques and use their intuitive judgments to make decisions to manage risk using a multi-pronged approach.

Our Investment Committee team consisting of John Reynolds (ex-NatWest Markets, ABN and RBS), Peter Toogood (ex-Forsyth, OBSR, and Morningstar), Asim Javed (ex-State Street), Gill Hutchison (ex-Credit Suisse and OBSR), and Andrew Thompson (ex-Morley and Sarasin & Partners) together with a client perspective, find the ability to use automated quantitative analysis invaluable in reaching qualitative decisions about portfolio compositions aimed at delivering high performance, risk-controlled, low-cost portfolios.

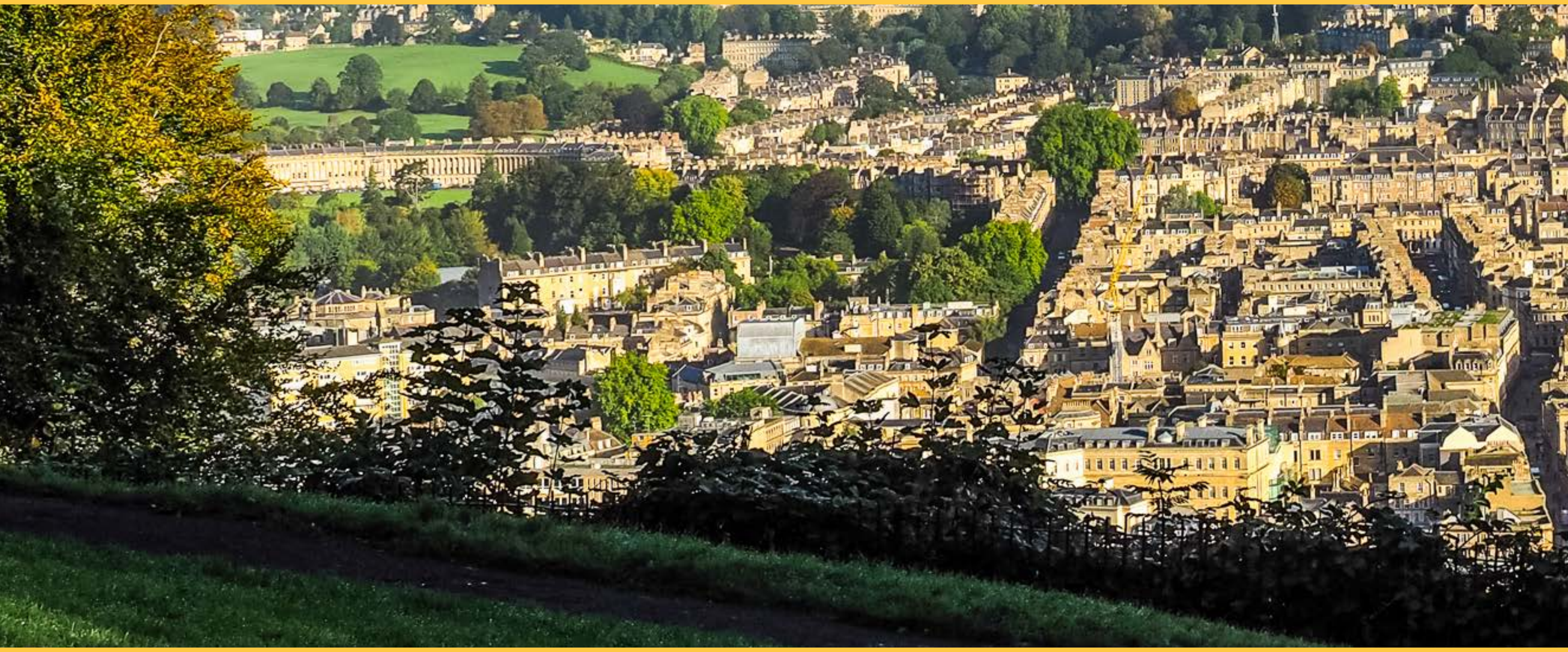
This is achieved by using automation in combination with qualitative analysis at every step of the investment process. Each step also enables risk to be analysed in a different way, leading to a multi-pronged approach to risk management. The first step consists of using automated risk questionnaires together with client interviews and the determination of risk categories. Next, the impact of market factors – macro, fundamental, technical, and geopolitical – on all the permitted asset classes is measured using quantitative models which generate signals with which the portfolio manager can formulate a few high conviction views and confidence levels. The results of the quantitative models used can provide further insights into market risks.

These selected views can then be analysed using an automated implied views calculator to generate views on markets on which outlooks have not yet been formulated. These throw light on the inter-relationships being assumed between asset classes and can lead to revisions before being finalised. The complete set of views is next used by an automated optimisation model to generate portfolios for each risk category.

Critical analyses of these are followed by scenario analysis where each portfolio is stress-tested in worse case scenarios, such as the credit crunch scenarios, or the dot com crash. This enables the manager to use judgment to finalise decisions after understanding risk from yet another perspective.

Finally, the portfolios selected are monitored on an automated real-time basis and the models that generated them are constantly reviewed as are deviations beyond limits set, of the performances and risks of the portfolios. If these are not due simply to transient market anomalies, the models can be corrected, and the portfolios rebalanced where appropriate. This last process can often highlight changes in market paradigms.

Due to the availability of low-cost automated systems, and low-cost diversified funds for asset allocation (ETFs and index funds), the above intuitive and transparent steps can be used to generate high performance, low cost, and risk-controlled portfolios – but only if used by experienced portfolio managers. Just as medical surgeons use their experience to harness the powers of medical technology, so highly skilled portfolio managers need to use judgments based on many years of experience and training to provide high-quality portfolios for investors and reduce the chances of exposure to another failure in risk management.



About the author:

Shahid is a highly qualified and accomplished Investment Director, with broad experience that includes working at a range of top-tier banks (investment bank, central bank, and private bank), fund management companies, hedge funds, and regulators across the world.

Shahid is a founder and shareholder at Alpha Beta Partners. Now retired from the coalface but remains actively involved in the business. His professional track record includes collaborating with Fischer Black and Bob Litterman on the Black-Litterman Asset Allocation and Risk Management Model, Pioneering Asset/Liability Management at Salomon Brothers, and managing $16bn Central Bank reserves.

Shahid's management experience includes Executive Director at Goldman Sachs, Director at Salomon Brother, Head of Client Solutions at RBS/Coutts, and Chief Investment Officer at Capita Financial Group. As a result, he is well versed in qualitative and quantitative fund management techniques and aware of the regulatory issues that impact investment funds.

Meet the Team

Geoff Brooks

Originally, I was quite into science and engineering as a young man, studying Electronic Engineering at Kingston Poly back in the day. I found my way into the wealth management industry via NPI which gave me a great grounding in retirement products and planning. I developed my career with various life office sales leadership roles and a stint as an IFA. I've always been keen to learn about all sides of the industry and joined HSBC as Head of Retirement, going on to strategic global roles and lucky enough to spend some time in New York, Hong Kong, and Malta over the years. I am one of the founders of Alpha Beta partners, and very proud of the team and business we have built.

Of course, it's all nothing without the support of our customers and advisers where we focus every day on providing a value for money service with high touch support. We set up as 'partners' in our name because we genuinely want a partnership with our clients, and through the experienced team can provide broad business support and advice. Away from the office I enjoy spending time with my wife and 4 grown children and for my sins I follow Southampton football club and am a keen skier, sailor, and bad golf player, when time allows. I'm very much moulded in the 80s so I love the post punk era music of Simple Minds, The Cure and New Order. I don't have the chance to read much outside work these days, but I enjoy a good movie.

Andrew Thompson

I have worked in the investment industry for my entire career, starting at L&G and moving around the City a couple of times to places like Morley Fund Management and Sarasin & Partners, working my way up the greasy pole ending up taking responsibility for part of respective businesses. I am one of the founders of Alpha Beta Partners and am proud of what we have delivered for investors and clients so far.

We strive to democratise institutional investment processes for the benefit of retail clients, delivering reliable and good quality outcomes within a value for money framework. A long way to go and still much to do! Away from the office I enjoy walking and listening to audio books, podcasts, and music – if I ever get time again, I'd love to go fishing! I can heartily recommend "The psychology of money" authored by Morgan Housel. A book with great lessons on life and money. Music wise, for me, Rattus Norvegicus by the Stranglers must be amongst the best debut albums ever!

John Reynolds

My career began 40 yeas ago next spring. How time flies when you're having fun! After a brief spell at Arthur Andersen on the consulting side (now Accenture), I forged my early career in the City, in the mid-to-late 1980's and 90's, as an Economist and Investment Strategist, rising to prominence as a top rated Global Investment Strategist (Extel) and Head of Research, with NatWest Markets and then ING Barings.

The 2000's saw me take responsibility for driving business with asset managers at Deutsche Bank and ABN AMRO before taking on role of Chief Investment Officer for Capita Financial Group.

I am a co-founder and Chair of Alpha Beta Partners and also Chair the Investment Committee. For the past 13 years, I have also been an active business angel. I've a passion for golf, music and walking, which keeps me active and occupied outside of work and treated myself recently to the Oxford AI programme, which I would highly recommend for those looking to get a firm grip on the subject and the implications for business.

Asim Javed

Asim, a seasoned financial professional, has been a cornerstone of Alpha Beta Partners since its inception, shaping the investment landscape with his multifaceted expertise. As a key member of the team, he not only spearheaded the design, construction, and deployment of the investment process within a robust Investment Risk Framework but also played a crucial role in developing and deploying the Quantitative Investment Process.

Previously serving as the Director of Investment Risk at Host Capital, Asim brings over a decade of diverse experience, spanning roles from Fund Accounting, Investment Risk to Investment Management. His skills are further underscored by his role in multi-asset research, encompassing market dynamics, macroeconomic factors, fundamental and technical analysis, geopolitical considerations, and asset-specific risks. As a Chartered Financial Analyst (CFA) and a qualified accountant, Asim brings over a decade of experience to the table.

His journey in the financial sector reflects a commitment to excellence and a deep understanding of the intricacies involved in managing investments. Away from his desk, Asim finds joy in reading books on a wide range of subjects. Additionally, Asim has discovered a newfound interest in kickboxing.

Sarah Warner

I began working in Socially Responsible Investment (SRI) in 1997 at Minerva Fund Managers, a family business focused on SRI and Ethical mandates since 1994. While working there, I pursued higher education, became a qualified social worker, and earned a master's degree in social work.

I blend financial sector experience with a social work background to analyse sustainable funds and advocate responsible corporate practices. Minerva was acquired by MitonOptimal in 2017 and later by Alpha Beta Partners in 2020. I continue work in identifying and managing long-term investments for a sustainable world. Away from my desk, I enjoy outdoor activities, baking, painting, playing the cello, and have a passion for Star Wars and Marvel.

Despite being a horror fan, my favourite film is the Muppets Christmas Carol, appreciating its humour, sentiment, and the message of positive change.

Mel Kennard

Throughout my career, I have accumulated extensive operational and compliance experience in both Funds and MPS solutions. Starting at City Financial Managers, I held various operational roles in the ACD business, covering areas like marketing, dealing, and client management. A significant portion of my career was spent at Miton Asset Management, where I achieved IMC qualification and advanced to the position of Head of Operations.

Notably, I played a key role in launching the firm's inaugural UCITS umbrella in Dublin and served as a Director for the project.In 2014, I co-founded Coram Asset Management, where I assumed responsibility for operations and compliance.

Even through changes in ownership, I remained an integral part of the business. Following the acquisition by Alpha Beta Partners in 2020, I took on the role of COO. Beyond my professional life, I am part of a sports-oriented family, and my competitive nature often translates into being a supportive spectator at rugby matches or cheering for my children as they pursue their goals.

I prioritise personal challenges outside of work to enrich my experiences and maintain a balanced life. A notable achievement includes climbing Kilimanjaro for charity, an experience I highly recommend for those seeking both bragging rights and a truly memorable adventure.

University of Exeter

University of Exeter
Women in Business

Alpha Beta Partners is a proud sponsor for Exeter University and particularly the Women in Business Society Team.

We are keen to accelerate the prospects for young women entering the asset management industry. The quality and potential amongst the young women interested in our industry is overwhelming. During November, Sarah Warner visited Exeter University to deliver a presentation focusing on sustainable investment and career pathways in the investment management industry.

The reception and feedback has been excellent. The event will feature in a United Nations publication, courtesy of the University relationship.

www.alphabetapartners.co.uk

Our website is effectively
our shop window.

We hope it provides a little more than a glossy "come hither" to visitors and regular users. Our website delivers transparent and open access to monthly factsheets for mainstream portfolios, incorporating performance, charges, and key holdings.

Our Investment updates and market commentaries are well read and prove popular with visitors, as well as a blog section where topical articles and thought pieces are published and downloaded regularly.

Our podcasts have proven very popular with clients – they deliver an up-to-date audio commentary around markets and portfolio positioning with conversational style Q&A amongst key Investment Team members. For regular users, a Login facility is available which (once your Login request is approved) offers access to essential client support materials, due diligence and Consumer Duty, our proprietary and very popular portfolio Risk Reports are downloadable as well as some voice-over presentations around topical portfolios and market views.

If you have not yet had a chance to visit the Alpha Beta Partners website, please spare a few minutes and do have a look around. As ever, all feedback and suggestions are encouraged.

Important information

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You should remember that the value of investments and the income derived there from may fall as well as rise and your clients may not get back the amount that they have invested. Past performance is not a guide to future returns.

Further information and documentation is available on request,
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