Manager's Quarterly Review

Q2 2020

	Q2 2020	Return	Level
Equity	MSCI AW Index	19.22%	525
	S&P 500 Index	20.54%	3100
	MSCI EM Index	18.08%	995
	MSCI CH Index	15.25%	88
	FTSE 100 Index	9.15%	6170
Debt	BBARC GA Index	3.32%	527
	US G2Y Index*	0.10%	0.15%
	US G10Y Index*	0.35%	0.66%
	US G30Y Index*	-0.28%	1.41%
Infrastructure	S&P GI Index	13.87%	2,211

(Source: Morningstar)

Quarter two began with the financial markets in distress, triggered by the economic implications of Coronavirus. Equities and commodities were registering extreme volatility readings not seen since the 2008 Global Financial Crisis. Market sentiment shifted from risk-off to risk-on during the quarter based upon overwhelming support from central banks and ended the period with largely positive readings across the equity indices from the low points registered in March.

Contrary to market sentiment, the pandemic and its consequences are far from over. The impact on certain sectors, especially leisure, hospitality, and aviation are acute. The virus has been a catalyst and has accelerated alternative working practices. We consider the broader adoption of digitisation and all that brings forth to be irreversible.

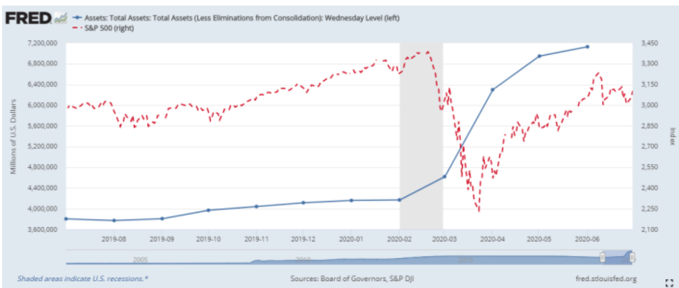
According to IMF forecasts, the world's GDP is expected to shrink by 4.9% this year with the US and the UK set to shrink by 8% and 10% respectively. The Federal Reserve expects unemployment to settle around 9.3% for 2020 with the current rate at 11.1%. To contain this economic meltdown, most of the developed countries are cautiously reopening their economies.

Despite gloomy economic forecasts and weak fundamentals markets have performed well. Fuelled by central bank liquidity and a view that an exogenous shock is a one-off event, markets are currently looking beyond the current stress to a point perhaps one or two years ahead when earnings growth will resume.

Certain commodities such as oil and copper are viewed as leading indicators for economic activity and as such suffered heavily during the lockdown period. Both commodities have since rallied as the prospects for economic activity ticks upwards once again. This is most encouraging.

Ongoing Quantitative Easing, asset purchase programmes from central banks, and fiscal interventions from finance ministers have helped to keep market levels much higher than would otherwise have been the case. We are more confident now that a banking crisis has been avoided. With long term commitments to central bank support, government spending on large scale infrastructure, and renewal programmes supplemented by low-interest rates for some years ahead we feel confident risk assets should perform well over the medium term.

The following chart shows an increase in the Federal Reserve's balance sheet and a corresponding increase in the S&P 500. We expect the Federal Reserve's balance sheet to cross $10 trillion mark by the time the Coronavirus episode concludes.



(Source: Federal Reserve Bank)

We expect to see more support from finance ministers as the crisis evolves, although the furlough scheme and other government schemes both at home and abroad have been equally effective and highly expensive. The period discussed in this document has been one of superlatives both economically and socially and will shape

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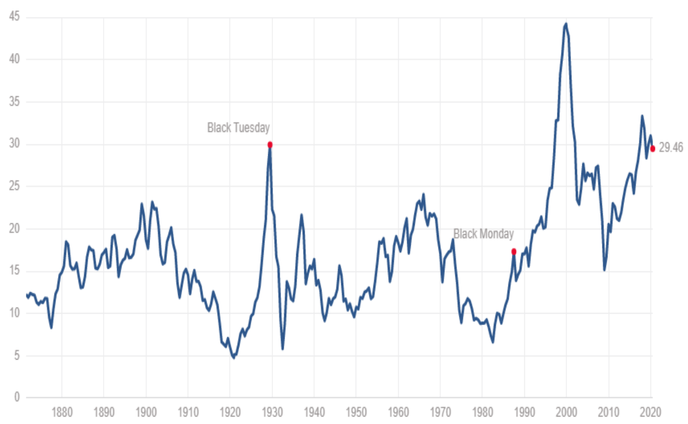
our tomorrows with Modern Monetary Theory in play and a type of "New Deal" being presented.

We are encouraged by the impact of Mrs. Lagarde at the ECB and Mrs von der Leyen at the European Commission who have collaborated to present a strong response to the crisis. The European Central Bank announcement to add a further €600bn boost to its Quantitative Easing programme launched in Q1 with further measures to come across the EU is supportive. Non-refundable grants and preferential loans are likely to be made available across the EU with Italy and Spain perhaps benefitting most.

We must address fundamentals as perhaps the elephant in the room. As earnings have fallen steeply and markets have responded well to central bank intervention, valuations have of course risen exponentially. We expect this trend to continue for some time until earnings growth returns. The dislocation between prices and valuation norms has upset many investors, plenty of whom have taken cover in lower-risk assets in anticipation of further equity corrections.

The chart shows the Cyclically Adjusted Price to Earnings ratio for US equities – hardly cheap on a historic basis!



(Source: multpl.com)

Markets have been looking through the economic damage inflicted by the Coronavirus to a point around a year or so ahead of when earnings growth can resume, supported by central bank liquidity in the meantime. Any deterioration in the levels of expectation and associated time frames will give rise to market volatility. This was certainly felt in June particularly with US data which showed a delay in lockdown easing across certain economically powerful states.

During the quarter we have reduced cash, short-duration fixed income positions, and increased equity exposure especially in the United States and Europe. During the quarter we have introduced gold as an additional asset class and have enjoyed a strong performance from this asset category. This reflects our medium-term view around inflationary pressures building and a consequence of a weaker US dollar as we forecast some months back.

Alpha Beta portfolios have performed well during the period. We are proud to report that none of our portfolios breached stipulated volatility bands during the worst days of March and this fact underscores the value of our *Risk First* investment process. Barring any negative surprises, we anticipate markets being well supported for the quarter ahead.

Thank you for your support and please do get in touch if you have feedback or questions. We would like to hear from you.

Our portfolio returns:

Performance %	Year to Date	Quarter to Date	Month to Date
AB1	0.98	7.05	0.95
AB2	0.34	9.40	1.19
AB3	-0.40	11.58	1.56
AB4	-1.33	13.23	1.90
AB5	-1.91	14.94	3.08
AB6	-2.97	15.24	3.86

(Source: ABP and Morningstar, for Indexed funds solution, Data 30/06/2020)

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