PLAIN ENGLISH FINANCE

Quarterly Fund Update
VT PEF Global Multi-Asset

Q1 2019

As a reminder - our quarterly updates correspond to calendar quarters.
This update covers the period from the 1st of January to the 31st of March, 2019.

Readers will recall that the last quarter of 2018 was one of the most difficult periods for financial markets in several years. In my last quarterly update I referenced the fact that I was pleased with the downside protection our fund achieved in such a difficult and negative time.

In contrast, the start of 2019 witnessed strong bounces across many financial markets. A good percentage of professional investors came back to their desks after the Christmas break in a far more optimistic mood. This is actually quite a well-known phenomenon. In a dreadful year like 2018, investors will tend to close down their books and sit on their hands as they approach the year end, rather than risk losing any more money by being more active. The 1st of January presents them with a clean slate of sorts with the focus then being on how they can make money in the new year ahead rather than on damage limitation at the end of a terrible year. This is a big change psychologically.

As a result, by the end of March many markets had recaptured the losses of the last quarter of 2018. The bounce was pretty indiscriminate and wide ranging, with growth, value, small cap, large cap and developed and emerging equity markets and real estate all putting in a strong quarter. The only real laggard to speak of were commodities.

Our fund uses backward looking moving averages to drive investment decisions. As such, it necessarily lags bouncing financial markets. The fund will not invest in 'risk' assets until the indicators have established a sufficiently long and durable trend – which will take several weeks. This means that we will tend to miss out on the first few percentage points of any bounce, particularly if it occurs very quickly. This is the price we pay for significant downside protection – and a price that is certainly worth paying in the long run based on decades of real world experience.

That having been said, in early February, the fund bought back into Asia-ex Japan, US and emerging market equities and US and European real estate and UK real estate in March – in other words, we were starting to gradually add 'risk' positions, having been extremely defensive at the start of the year. By the end of the quarter, this had helped the fund recover about 1%.

It is perhaps worth noting that on the 3rd of April, the fund invested back into another 8 'risk' silos – meaning that only a few days after the quarter end, the fund was in 19 of 24 of our 'risk' asset classes. This will enable the fund to capture more upside as the second quarter progresses if markets continue to run. We will obviously look at this in more detail in our next quarterly update in July.

Andrew Craig
Investment Manager