PLAIN ENGLISH FINANCE

Quarterly Fund Update
VT PEF Global Multi-Asset

Q3 2018

As a reminder - this update covers the period from the 1st of July, 2018 to the 30th of September as our quarterly updates correspond to calendar quarters.

For quite some time now, one of the features of global financial markets has been the strength of US equities, driven to a meaningful extent by the big tech companies in particular and notably the FAANG stocks (Facebook, Apple, Amazon, Netflix, Google). I have written **before** about some of the **reasons** behind such a long and strong bull market in quality shares and as you would expect our fund continues to be long US equities whilst this performance continues. Elsewhere, however, the picture was less rosy in Q3 2018 – particularly in emerging markets and commodities.

As a result, in July our signals took us out of our core emerging markets equity fund, Asian emerging markets, agricultural commodities and gold. At the same time, the signals had us buy defensive US$ corporate bond exposure for the first time since November 2017 and global infrastructure, which we hadn't owned since January of 2018. In August, the fund added exposure to European equities and emerging equity markets in eastern Europe and Latin America. At the same time we bought back into our euro corporate bond silo and high yield and emerging market bonds too, with the result that the fund was in all of the bond silos in our model by early August. Also in early August we sold out of our industrial metals, implying the fund was now completely out of commodities. In September – the signals took us back out of eastern European and Latin American shares again – showing how annoyingly choppy many markets are this year.

The net result of all of this was that we were -0.7% for the quarter. As I have written in the past – when markets 'range' (i.e. do nothing discernible – the opposite of 'trending') – our fund struggles to make significant upside but does its best to protect the downside. Whilst we would obviously much prefer to be making forward progress in more discernibly trending markets, we can at least content ourselves with six months of decent downside protection through such choppy and directionless markets.

I would repeat that we are entirely agnostic as to what markets may or may not do. If there is a broad based crash as is being predicted by so many commentators, we would hope that the model protects a good deal of the downside as it has done in the past. As and when markets trend again – we would also hope to capitalise with the same strong performance the model has achieved in the past. As a reminder of what this can look like, please see page 18 of our Fund Overview document.

Andrew Craig
Investment Manager