For Professional Advisers only

Psigma
Investment Management

Psigma Asset Class Outlook

Q4 2020

The Psigma Investment Team meet quarterly to review and update their five years asset class, inflation and interest forecasts. This meeting is the central pillar of the Psigma Investment Process and the report is compiled to help you understand any key decisions we have made or will make in the foreseeable future across our client portfolios.

Asset Class Outlook

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Psigma's Key Views on Financial Markets & the Global Economy

- The first quarter of 2020 was a period where a medical crisis triggered an economic crisis, which in turn led to financial system liquidity crisis, thereby setting off a market crisis. Then the central bankers and governments stepped in and turned on the liquidity taps to full flow. This led to the second quarter of 2020 experiencing perhaps the most powerful asset market recovery ever experienced, with a full retracement in many markets after the terrible start to the year. The most recent quarter saw a continuation of the recovery in asset markets and a period of relative relaxation by comparison to the first half of this year.
- When one also mixes in the forthcoming US election, geopolitical gyrations caused by the deteriorating relationship between the US and China, the unravelling of the last three decades of globalisation and OPEC-inspired turbulence in global commodity prices to the ongoing COVID-19 crisis, it would be difficult to forecast the recent volatility subsiding any time soon, even if for now it is the central bankers and their actions that are "winning" and creating an aura of calm in financial markets.
- At the end of Q1 we stated that we thought that "the prospects for long-term returns from a range of investments are now as attractive as they have been for years and, in some cases, even as good as they were in the depths of the crisis of 2008". This positive stance has been rewarded with major gains in asset prices across our portfolios. However, we realise that we are dealing with an enigmatic situation in the form of the Covid-19 crisis and asset markets could well become more volatile after the welcome period of improvement of the last six months.
- It is becoming increasingly clear that for many economies to fully reopen and the regional "shutdowns" to be entirely lifted we must see major developments in diagnostic testing for COVID-19. Unfortunately, as with the various governments' ham-fisted initial responses to the emergence of the pandemic, decisive progress with widespread testing has often been elusive.
- We continue to expect that the initial "V" shaped recovery we have experienced in the global economy will give way to a more protracted "U" shaped recovery, as the structural impairments wrought upon the global economy by COVID-19 become clearer. We expect a gradual economic recovery back to end 2019 levels by the end of 2021/ start of 2022.
- Rampant stock markets are suggesting a much better outcome than our economic "base case" and it could well be that equity markets are not implying a rapid recovery in corporate profitability, but are rather recuperating from the ravages of the first quarter due to the potent potions of government stimulus and central banks' monetary measures. Governments have rightly taken the view that they will do "whatever it takes" to assuage the worst impacts of their own economic decisions, but there now appears to be no control over spending promises and no exit plan for these stimuli.
- We also consider elements of the economy will change forever, including working habits and some of our daily practices. A large part of the economic output "lost" in 2020 will not be recovered. We are increasingly convinced that interest rates in the developed world will have to stay at close to zero for as long as we can realistically forecast, to help manage the teetering debt piles accumulated in the ongoing crisis. It is also impossible to imagine a future without persistently aggressive monetary easing to both calm markets and aid governments to foot future bills and obligations. The era ahead is likely to see lower growth rates due to issues over both debt and demographics in developed world nations.

Psigma's Key Views on Financial Markets & the Global Economy (Continued)

- We expect that inflation could rise in the future, following a sustained period of moderate inflation rates, as government spending and loose monetary policies combine with disrupted global supply chains, in an era where "reshoring" production of strategically important products is fashionable. A rise in inflation could also contribute towards further political uncertainty.
- We will persist with a balance across our investment strategies, with the major decision that we must make remaining 'how much of a portfolio do we own in defensive and offensive investments'?
- Currently our broad assessment leaves us with asset allocations that are underweight equities and overweight short-term corporate bonds. This is because we think the actions taken so far have helped companies stay financially afloat but that corporate profits will struggle to grow in a low growth environment. We view conventional government bonds as "return free risk" and highly vulnerable to any return of inflation or a resurfacing of fears over the sustainability of government debt levels. This stance helped our portfolios over the last few months.
- The best prospects that we can still currently identify are in selective credit markets, where there are presently exceptional opportunities from a relative perspective to other asset markets. It is on such investments that we are continuing to focus our attention and where we are convinced that we can create the best long term returns from any recovery from today's medical, economic and market troubles.
- While our allocations to equities have been tactically reduced and we have slightly higher than average levels of cash within our portfolios, this should not be viewed as a negative long-term view on the potential to achieve our clients' long-term investment aims. Indeed, we continue to be very positive about the prospects of many geographic regions and equity sectors.
- We do not expect the volatility to subside in the coming months, but we must focus on the long term and recognise that we will get through this situation. As in previous crises it is the decisions that we make today that will ultimately lead to long term investment returns and we remain confident in being able to achieve our clients' long term aims and excited by the potential returns of certain investments in the years ahead.

Key Themes within Our Portfolios

Quality Equity 27.5% of Portfolio	Within this bucket we can gain exposure to varying long term structural thematic growth themes. Climate change and a "decarbonising world" is one such trend we have exposure to. We are able to combine making good long term financial returns, with providing capital to fight one of the most pressing issues facing today's world. Fund example: **91 Global Environment**
Inflation Insurance 6.25% of Portfolio	Finding inflation protection is hard, but we favour shorter duration global inflation-linked bonds over what we view as expensive and much longer duration UK inflation linked bonds. Fund example: **Fidelity Global Inflation Linked Bond.**
EM Growth 6% of Portfolio	Arguably one of the more exciting themes in our portfolios. We particularly like the long term dynamics of Asian domestic consumption. We have high optimism for the economic growth and development of Asia Pacific countries. Fund Example: **Matthews Asia-ex Japan Dividend.**
Hunt For Yield 25% of Portfolio	The "hunt for yield" persists in global markets. We hold positions across specialist credit, such as asset backed securities, whilst also having exposure to specialist high yield mandates to supplement our existing income selections. Fund example: **Tikehau Strategic Focus US High Yield**
Equity Recovery 8.25% of Portfolio	Probably our "riskiest" theme, but we favour the value markets like emerging markets, Japan and to a lesser extent Europe, which should be heavily geared to any continuation of the good performance of equity markets. Fund example: **River & Mercantile World Recovery**.

Psigma Asset Class Forecasts – Q4 2020

Red illustrates where a forecast/scenario has decreased from last quarter and **Green** illustrates where it has increased. Please refer to the Appendix section of this report for a full description of each of Psigma's Scenarios.

Scenario	Structural Downturn	Slowdown	Growth	Strong Growth	Psigma Five Year Forecast Return	
% Chance	**20**	**30**	**30**	**20**	**Q4 2020**	**Q3 2020**
Cash	0	0	0	0	**0**	**0.5**
Sovereign Debt	2	1	0	0	**0.7**	**1.0**
Investment Grade	1	3	4	4	**3.1**	**3.1**
High Yield	1	2	6	7	**4.0**	**4.2**
Index Linked	2	1	2	2	**1.7**	**1.5**
Developed World Equity	0	2	6	10	**4.4**	**4.4**
Emerging Market Equity	0	2	10	12	**6.0**	**6.0**
Property	0	2	5	6	**3.3**	**3.3**
Resources	1	3	8	15	**6.5**	**6.5**
Gold	10	8	6	4	**7.0**	**7.0**
Alternatives	0	3	5	7	**3.8**	**3.8**

Psigma Inflation and Interest Rate Forecasts

%	2020	2021	2022	2023	2024	Five Year Rolling Average
Five Year Inflation Forecast	1.0	2.5	2.0	2.0	2.0	**1.9**
Five Year Interest Rate Forecast	0.1	0.1	0.1	0.1	0.1	**0.1**

Latest Asset Class Preferences (Based on a Psigma Balanced Strategy)

Red illustrates where the asset allocation has decreased from last quarter and **Green** illustrates where it has increased.

Asset Class	Bandwidth %	Neutral Allocation %	Q4 2020 (1st Oct) %	Q3 2020 (1st July) %
Cash	0-10	2.5	**6.5**	**8.5**
Sovereign Debt	0-10	5.0	**10.0**	**8.0**
Investment Grade	5-15	7.5	**13.0**	**13.0**
High Yield	0-10	5.0	**10.0**	**10.0**
Index Linked	5-20	10.0	**5.0**	**5.0**
Developed World Equity	30-50	42.5	**36.75**	**35.75**
Emerging Market Equity	5-10	7.5	**6.0**	**6.0**
Property	0-5	2.5	**0.0**	**0.0**
Resources	0-5	2.5	**1.25**	**1.25**
Gold	0-5	2.5	**2.5**	**2.5**
Alternatives	10-15	12.5	**9.0**	**10.0**

Asset Class Preferences (Based on a Psigma Balanced Strategy)

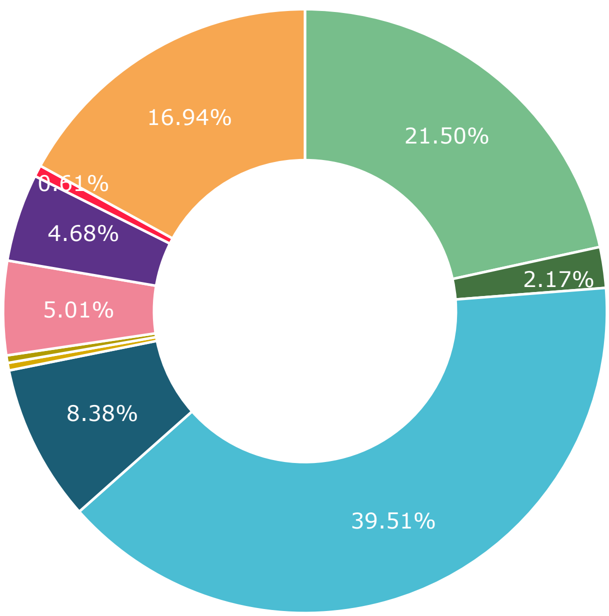
Asset Class	Short Term View (3 Mths)	Long Term View (1Yr+)	Comments
Cash	Overweight	Underweight	In light of the increased volatility in markets, we have maintained a moderate overweight allocation to cash. We remain mindful of the meagre global growth outlook, increased political tensions across the globe and the potential for markets to fall lower as poor economic data feeds through to reflect the slowdown caused by the coronavirus. We are using cash allocations for defense, whilst retaining a portion in case the opportunity arises to invest in better priced investments in the coming months.
Sovereign Debt	Neutral	Underweight	Following the Bank of England cutting interest rates down to 0.1%, we are very skeptical of the long-term return prospects offered by UK Government bonds. Furthermore, the increased government spending (financed by borrowing) is likely to put upward pressure on bond yields making developed market sovereign bonds a challenged store of value over the longer- term. We see Emerging Market sovereigns as being attractive and also believe short dated debt to be a solid store of value (hence our neutral view).
Investment Grade	Overweight	Neutral	The coronavirus associated sell-off was indiscriminate and saw investment grade credit spreads rise to levels not seen since the global financial crisis. Although mainstream credit assets have seen recoveries to what we'd deem "fair value", there are still some decent opportunities to be sourced within less mainstream parts of the market. We have maintained exposure to the asset class, limiting our investments to boutique managers who remain extremely nimble and focused, which we believe is vital for the months and quarters ahead.
High Yield	Overweight	Overweight	High Yield credit still remains our favoured asset class. Specifically, we favour shorter-dated areas of the high yield markets and also areas within the Asset Backed Securities ("ABS") and Collateralized Loan Obligation ("CLO") market where we see the return opportunity as being very strong; especially when compared to the risk being under-taken relative to other asset classes.
Index Linked	Underweight	Neutral	We continue to maintain our positions in index-linked bonds. Inflation remains fairly subdued at the moment, largely due to some sizable disinflationary pulses that are keeping inflation low. In the near-term inflationary forces are likely downwards; i.e. deflationary. This is due to less spending (during lockdown) and a weaker labour market (as employees feel the bite of decreased activity). However, we do ultimately believe that the action of governments and central banks will be deeply inflationary, but that will take some time to come through. We believe inflation linked bond prices have reflected this conflicting dynamic, exhibiting a significant amount of volatility in recent years. Where we do have exposure, we have opted to focus on strategies that isolate the "breakeven" or "pure inflation" element of an index-linked bond and in particular we favor the US market over the domestic one.

Asset Class	Short Term View (3 Mths)	Long Term View (1Yr+)	Comments
Developed World Equity	Underweight	Neutral	Developed market equities have enjoyed a rapid recovery – fuelled on central bank stimulus, with the big technology stocks (in particular) pulling the market higher. We don't question the growing role that technology will play in future economic growth but do have questions around some of the valuations on offer and have looked to spread our allocation to these sectors. As such, we have a broad and balanced split between "quality" and "value" areas of the equity market. "Quality" has performed exceptionally well in recent years; helping to support the market and lead it higher. We remain very conscious of the defensive characteristics that many of these dependable growth companies offer. Although the valuations look relatively stretched compared to other areas of the equity market, they are supported by super-low bond yields and defensive characteristics in times of stress. On the other hand, "value" areas of the market have performed very poorly over the last few years and the current disconnect between "value" and "quality/growth" has rarely been more pronounced. On a regional basis, we have a preference for the cheaper markets such as the UK and Japan.
Emerging Market Equity	Overweight	Overweight	Emerging market equities offer decent value and Asia, in particular, is an area that we favour. On balance, we remain positive on the long term growth prospects of the emerging markets and are strongly encouraged by attractive valuations, particularly relative to developed peers. We are attracted to companies that can pay good dividends and have a demonstrated ability of growing these income streams.
Property	Underweight	Underweight	We have zero exposure to the Property markets within our Clients' portfolios. This is based in some-part on valuation grounds, but to a larger degree to the illiquid nature of many of these structures coupled with an expected slow-down in demand for big shopping centers, hotels and other retail outlets. We expect commercial property to struggle in this uncertain environment; not least with an expected rise in employees working from home coupled with consumers not wanting to visit busy areas. The listed side of the market (Real Estate Investment Trusts: "REITs") is more attractive and is a potential investment we continue to monitor; it tends to be more flexible in nature and may actually be able to benefit from the shift to increased warehousing of both goods and data.

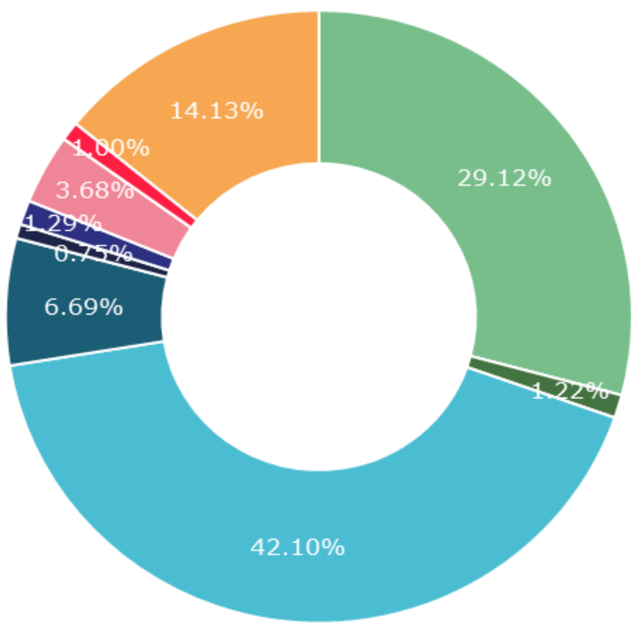
Asset Class	Short Term View (3 Mths)	Long Term View (1Yr+)	Comments
Resources	Underweight	Neutral	Although we expect growth to take some time to return to previous levels, the mechanisms are now in place for commodities to gain ground. Namely, we have the Central Banks firing up their printing presses and Governments that are keen to spend in order to ignite growth; or at the very least to prevent a depression. We have already seen that to some degree with a recovery in the oil price and a rise in the gold price. We will continue to monitor real levels of economic activity as the catalyst for increasing exposure to this asset class.
Gold	Neutral	Overweight	Gold has had a strong year, reflecting its "safe-haven" status but also its use as a store of value should inflation set in. Gold mining shares, rather than bullion, is how to we choose to express our positive view on gold and the case for that has been strengthened this year. Gold can perform well in times of crisis, but historically has performed very well when there is no opportunity cost associated with holding it. With cash rates close to zero (and likely to stay there indefinitely) and governments hell-bent on trying to promote some inflation, gold has the platform to perform well and serve its role as a store of value in times of uncertainty. The mining stocks provide us with an amplified exposure to an asset we are positive on.
Alternatives	Underweight	Neutral	We have maintained our focus on managers with a short and diversified bias, given the uncertain backdrop. Our expectation is that volatility is likely to remain high for the foreseeable future. We continue to use our alternatives weighting to try and add further diversification in an investment environment of high correlations.

Current Regional Equity Allocations (Based on a Psigma Balanced Strategy)

Psigma Balanced Total Regional Exposure



Psigma Composite Total Global Equity Index*



*Our Psigma benchmark is 42.1% DW ex UK, 42.1% UK and 15.8% EM & updated on a quarterly basis.

North America | Latin America | UK | Europe DM | Europe EM | Africa & Middle East | Japan Hedged | Japan Unhedged | Australasia | Asia

Region	Short Term View (3 Mths)	Long Term View (1 Yr +)	Comment
North America	Underweight	Neutral	We are moderately underweight the US market; mindful of its expensiveness relative to other markets. It was a market we took profits from early on in the year (as markets rallied) and one that we've added to at points of weakness (with several of our global managers rotating into beaten down technology and consumer stocks). Within our US exposure, we have a meaningful bias towards "growth" names and in particular the bigger technology and consumer companies who we expect to be more resilient in the face of the economic slowdown and emerge as relative winners.
UK	Neutral	Neutral	We are fairly neutral on the UK and within that we have a bias towards the larger companies. We note the attractiveness of this market on a valuation basis which compares favourably to markets such as the US; even after a raft of dividend cuts within the UK. We choose to express our exposure through a range of passive and high quality active managers. The passive exposure gives us some exposure to the most hated and unloved parts of the market; namely energy and materials, whilst the high quality active managers give us exposure to the stable franchises which we expect to benefit from the demise of smaller and less well capitalised companies.
Europe	Neutral	Underweight	Although we are very bearish on the Euro bloc economically, it has some excellent companies which happen to be franchised here. Hence our having a neutral exposure (on a look-through-basis) without having any dedicated managers within this region. Specifically, some of our global managers have identified strong growth opportunities in areas such as healthcare and technology whilst our infrastructure manager has identified utility companies which are heavily regulated and provide a stable income.
Japan	Overweight	Overweight	Japan is our most favoured of the equity markets on a relative basis and is where we have our largest overweight on a look-through basis. Japan ticks many boxes for us. In addition to valuation support, they have a muscular agenda for corporate reform which is resulting in good developments and is generally friendly for the shareholder. They also have a central bank that is extremely supportive and has stepped up its agenda in response to the coronavirus induced slowdown by increasing its purchase of equity markets and effectively buying unlimited amounts of sovereign debt; both of which should provide wind in the sails to the equity market. We position our exposure across two managers: a very concentrated local specialist which we combine with a more benchmark aware position. The specialist has high exposure to technology and capital light businesses whilst the other position is less punchy yet still favours the growth areas of the market; notably healthcare. We temper our overweight exposure by hedging the currency position (that which is overweight) back to sterling.
Emerging Markets	Overweight	Overweight	We have a neutral position to the emerging market region, but with that are overweight the Asian emerging markets. Emerging markets trade at more compelling valuations than their developed counterparts but the key reason for our liking the Asian markets is the role of the Chinese consumer who continues to grow in dominance, influence and, importantly, spending power. Whilst this is halted somewhat by the impact of the global shutdown, we'd note that the Chinese economy has very much followed a "FIFO" (First-In-First-Out") model which has meant for this halt being more temporary than that within developed markets. Helped in no small part by the high level of control that the People's Republic have been able to exact over the actions of the population

Region	Short Term View (3 Mths)	Long Term View (1 Yr +)	Comment
Emerging Markets (Continued)	Overweight	Overweight	We'd also note the increasing prevalence that technology plays within these markets and can find attractive companies which trade on better multiples than we're able to find in the more established markets.
Asia	Overweight	Overweight	We retain our Asian overweight, with a preference for the large and fast growing economies. This includes countries such as China, Korea and India where we are trying to tap into the increasing spending power of the middle classes. This encompasses a broad mix of companies, from luxury goods and drinks manufacturers down to more staple goods such as domestic toiletries – all of which we see as beneficiaries of a population growing in wealth and consumption.

Positive and Negative Contributors from Q3 2020

+	-
Underweight Government Bonds – Perceived "high quality" government bonds lagged in Q3, continuing to give back the gains made in Q1. Corporate bonds performed well, by comparison.	**Protection** – Our protective alternative position gave back some of the ground it made in the first six months of the year, which was understandable given the meteoric rise in asset prices.
Higher Risk Fixed Interest – A powerful recovery continued from Q2 in to Q3 across all corporate and consumer credit fixed interest investments, benefiting our strategies.	**Cash** – We used our cash allocation tactically, reducing and increasing allocations as markets were volatile, but in simple terms holding any cash remained unnecessary, as it was in Q2 2020.
Gold Equities – Further gains were enjoyed after a blockbuster second quarter boosting overall returns.	**Underweight Equities** – We could have been overweight equities instead of having an underweight stance, which had been positive in Q1, but we saw better opportunities for risk taking elsewhere, such as in higher risk credit markets.
Active Equities – There were extremely pleasing performance trends from several our selected active managers over the last few months, particularly in Japan and our "Environment" fund, helping overall portfolio returns	

Appendix - Psigma's Current Four Scenarios

- **Structural Downturn**
  A potential repeat of the 2008/2009 financial crisis or the 1930's Great Depression.
  Flight to safety, investors holding cash, with demand for gold and other traditional safe haven assets such as US Treasuries, Swiss Franc and the US dollar

- **Slowdown**
  The global economy does not grow or has negligible economic growth in the next five years
  Central banks reignite the huge stimulus efforts to avert the full Depression scenario, with investors holding "safe-haven" assets over" risky" assets

- **Growth**
  Continued low growth globally with higher levels of volatility across financial markets and all asset classes.
  Investors seek yield, through high quality equities and corporate bonds.

- **Strong Growth**
  Eurozone issues are resolved, Chinese and US growth accelerates, global unemployment falls.
  Investor confidence returns, with return of risk appetite into cyclical equities, commodities, EM currencies and global financial shares/credits.

Important information:

This document is prepared for professional advisers and is intended to provide information only. The information contained within this document has been obtained from industry sources that we believe to be reliable and accurate at the time of writing. It is not intended to be construed as a solicitation for the sale of any particular investment nor as investment advice and does not have regard to the specific investment objectives, financial situation, capacity for loss, and particular needs of any person to whom it is presented. The investments contained in this document may not be suitable for all investors.

Investment Risks:

- The value of investments and the income from them can fall as well as rise. An investor may not get back the amount of money that he/she invests. Past performance is not a guide to future performance.
- Foreign currency denominated investments are subject to fluctuations in exchange rates that could have a positive or adverse effect on the value of, and income from, the investment.
- Investors should consult their professional advisers on the possible tax and other consequences of their holding any of the investments contained in this publication.