Octagon ASSET MANAGERS a graviton partner

28 February 2022 — Octagon Global Flexible Equity

Fund Details

Currency	GBP(£)
Risk profile	Aggressive
Investment period	5 years
Launch date	01-Aug-13

Fund Objectives

The investment objective of the Fund is to provide long-term capital growth through a moderate to high exposure to equity markets over a market cycle. This Fund is suitable for investors who require above average capital growth over a 5-year or longer timeframe. Total equity exposure can be maximised at 100% of the fund.

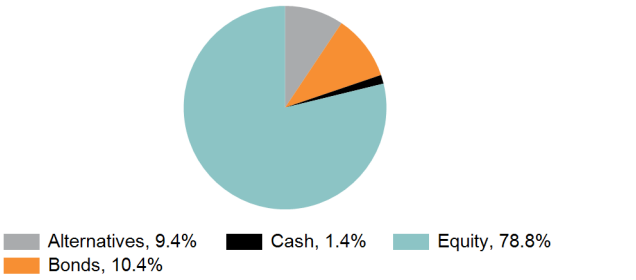
Holdings as at Month End	%
Cash	
Ninety One GSF Sterling Money I Acc GBP	1.40
European Funds	
Allianz Continental European	2.50
Man GLG Continental European Growth	2.50
Polar Capital European Ex UK	3.40
Corporate Bond Funds	
Allianz Strategic Bond I Acc	2.90
Hermes Global High Yield Credit	1.00
Jupiter Strategic Bond	1.50
Ninety One Global Total Return Credit K GBP Acc	1.50
Global Emerging Markets Funds	
Aubrey Global Emerging Markets Opportunities	2.90
Fidelity Fast Emerging Markets	2.90
Pacific North of South EM All Cap Equity	3.60
Japanese Funds	
Baillie Gifford Japanese	4.40
North American Funds	
Brown Advisory Beutel Goodman U.S. Value	6.70
Brown Advisory US Mid Cap Growth B GBP Acc	5.00
Dodge & Cox Worldwide - U.S Stock	6.70
Fidelity Funds - American Special Situations Fund	2.50
Granahan US Focused Growth	1.80
Legg Mason ClearBridge US Equity Sustainability Leaders	4.00
Loomis Sayles U.S. Growth Equity	7.50
M&G North American Dividend	5.80
Polen Capital Focus US Growth	7.50
UK Equity Funds	
Franklin UK Managers Focus	1.00
Invesco UK Opportunities	1.00
Schroder Recovery	1.90
Govt Bond Fund	
iShares GiltTrak Index	3.50
Alternative Funds	
Legg Mason Western Asset Macro Opportunities Bond	2.50
Protea ECO Advisors ESG Absolute Return	3.40
Sanlam Multi Strategy Fund	3.50
Global Equity Fund	
Sanlam Real Assets	2.90
Developed Asia ex Japan Funds	
Schroder ISF Asian Total Return	2.30

Key Information

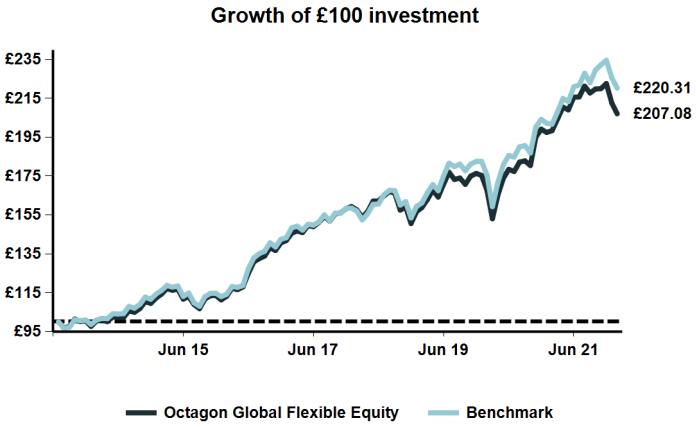
Benchmark	%
MSCI AC World	80.00
Barclays Global Aggregate UK Government Bond Index	9.00
Barclays Global Aggregate Corporate Bond Index GBP Hedged	9.00
GBP Cash	2.00

Fees (incl. VAT)	
Annual Wrap fee	0.46
Underlying Manager TER's	0.83

Global Asset Allocation



Cumulative performance since launch*



Performance (%)	Fund*	Benchmark
1 Month	-2.63	-2.39
3 Months	-5.90	-5.16
6 Months	-6.44	-3.37
YTD	-7.00	-6.11
1 Year	4.37	9.21
2 Years (annualised)	11.12	12.05
3 Years (annualised)	9.24	10.97
5 Years (annualised)	7.29	8.23
Since Launch (annualised)	8.85	9.64

Risk statistics (since launch)	Fund*	Benchmark
Returns (annualised)	8.85%	9.64%
Standard deviation (annualised)	9.33%	9.38%
% Positive months	65.05%	66.02%
Maximum drawdown	-13.54%	-12.77%
Sharpe ratio	0.88	0.96

* The investor is liable for CGT on any transactions in the units of the underlying unit trusts within the wrap funds. Compulsory investments are not subject to CGT. Performance is calculated using net returns (after fees) of the underlying unit trusts, and quoted excluding wrap fund fees. Performance quoted is pre-tax. Fund performance numbers shown are for a notional portfolio and does not reflect the actual performance of the client invested in the wrap fund due to timing differences of investments or disinvestments of the client. The information contained in this document has been recorded and arrived at by Octagon Asset Managers (Pty) Ltd (FSP) Licence No. 45236 in good faith and from sources believed to be reliable, but no representation or warranty, expressed or implied, is made as to the accuracy, completeness or correctness. Performance figures are calculated using net returns (after-fee) of underlying managers but are quoted gross of wrap fund fee. Performance figures for periods greater than 12 months are annualised. All data shown is at the month end. Changes in currency rates of exchange may cause the value of your investment to fluctuate. Past performance is not necessarily a guide to the future returns. The value of investments and the income from them may go down as well as up and are not guaranteed. You may not get back the amount you invest.

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28 February 2022 **Octagon Global Flexible Equity**

Commentary

Market Review

Equity and bond markets experienced a difficult month in February, driven by monetary tightening and geopolitics stemming from Russia's invasion of Ukraine. Global equities sold off over the month, returning -2.5%, in sterling terms. Equity volatility was elevated in late February as investors feared that the war and sanctions against Russia could lead to a material reduction in the global supply of energy and agricultural commodities.

North American equities fell 2.8% in February, as investors tried to process the implications of Russia's invasion of Ukraine. The US imposed a broad range of severe sanctions on Russia after the invasion, cutting Russia off from the global financial system, along with similar exclusions from the system by other major economic powers. Continental European equities were the worst performers, falling 3.9%, a possible consequence of the region's significant reliance on Russian energy imports. This will put further pressure on European governments to transition away from imported fossil fuels and towards domestically generated renewables over the long term. Meanwhile, UK equities were broadly unchanged over February, delivering a positive return of 0.8%. Rising commodity prices have helped the UK equity market given its high exposure to the energy and materials sectors.

Developed Asian equities ended the month in positive territory, rising 2.8%. After an initial recovery from January's weakness, Japanese equities ended February with a loss of -1.1%. Emerging market equities also registered a negative return over the month, falling 3%. Russian equities plummeted by over 50% and other emerging market heavyweights such as China and India also posted negative returns.

Global bond markets, in aggregate, fell 1.2% over the month, but still outperformed equities. Bond yields were volatile, finishing slightly higher due to moves earlier in the month. Corporate bonds had a difficult month, with Global Investment Grade Credit registering a negative return of -2.2%. Global Treasuries also struggled over the month, falling 0.9%. High Yield recorded negative returns of -2.4%.

The Russian invasion of Ukraine caused commodities to climb sharply over February. Silver and platinum both ended the month in positive territory, returning 8.8% and 2.5%, respectively. Gold also performed well as a safe haven asset during this period of uncertainty, rising 6.2%. Crude oil recorded strong returns of 14.5%, whilst natural gas declined 9.7%.

Tactical Asset Allocation and Fund Selection

The models delivered negative returns ranging between -1.4% and -2.9% for the month. Within North America, the rotation out of expensive growth stocks continued, with the Polen Focus US Growth and Brown Advisory US Mid-Cap Growth Funds struggling for a second month in a row. After a brutal couple of months, small cap focussed Granahan US Focused Growth held up much better during February, ending the month ahead of its larger cap growth peers. Value again performed much better, with BA Beutel Goodman and Dodge & Cox US beating the index by 3.8% and 1.5%, respectively.

Elsewhere, outside of US equities, it was the same story with 'growth' lagging value. Not surprisingly, emerging market funds were hit hardest, given Putin's invasion of Ukraine. Most emerging market managers had some direct exposure to Russia going into the conflict, though at a portfolio level exposure was relatively small. With many of them having reduced exposure, most Russian assets are now frozen or marked to zero, but some Russian businesses have non-Russian listings and are currently still trading. Whilst it is easy to identify those businesses that have headquarters in Russia, what is less easy to isolate is global corporate exposure to Russia in an interconnected global economy.

Bonds delivered small negative returns across the board, ranging between -1% and -3.4%. Within the alternative funds, Protea ECO Advisors ESG Absolute Return was the best performer with a positive return of 1%. However, Legg Mason Western Macro Opportunities fell by more than 9%, given a meaningful exposure to Russian rates.

Positioning and Outlook

The Russian invasion should negatively impact global economic growth. Accordingly, it also seems set to moderate the pace of interest rate hikes. Higher prices of raw materials, particularly oil, gas and wheat, will act as a weight on demand but are also, clearly, inflationary. This suggests a 'stagflationary' net effect – a lower growth and higher inflation outlook, perhaps much like that in the 70s with the oil shock.

That should not be a positive for markets labouring under the threat of 'sticky' Covid led supply-constrained inflation, which may be exacerbated by the invasion and slower tightening of monetary policy. That is, with authorities reluctant to add to the weight on consumers' pockets by raising rates at this time, inflation may become more embedded. How this plays out in the months ahead is difficult to predict. Events are unfolding as we write and re-write, with sanctions being dialled up and economic effects evolving.

Positioning portfolios is difficult against such a backdrop. Do we exit an emerging market fund for its Russian exposure, or not worry overly given it makes such a small part of the EM fund and an even smaller part of the portfolio, and considering that the holdings are now priced at zero?

Our philosophy when investing is to focus primarily on comfort. Comfort provides a great base for seizing opportunities, rather than running from scares. We are cognisant that the social message inherent in this (benefitting while others are suffering) is not altogether comfortable. Yet the more core message is that we are trying to earn clients attractive risk-adjusted outcomes by careful delegation of capital, to those who want to pay for (need) that capital. That has a massive social benefit too.

Given the backdrop we prefer to continue to err on the side of caution, though knowing where comfort will be found is not easy. We are cognisant that our chosen fund managers are there to seize appropriate opportunities. Yet, against such a complex backdrop which seems likely to be determined by the decisions of two people (Putin and Xi) what insights do any others have? Bottom-up analysis of a company's prospects will lead many to be buying into good companies at these lower prices, but clearly the macro backdrop will continue to dominate market direction in the interim, however long that may be.