Octagon ASSET MANAGERS a graviton partner

30 November 2020 — Octagon Global Cautious

Fund Details

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

Fund Objectives

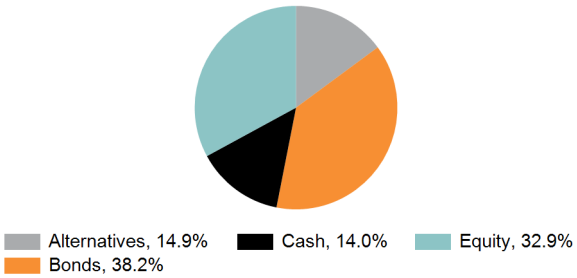
The investment objective of the Fund is to provide capital growth through low levels of exposure to equity markets over a market cycle. This Fund is suitable for investors who require low capital growth over a 5-year or longer timeframe. Equity exposure limited to 50%.

Holdings as at Month End	%
Govt Bond Funds	
Vanguard UK Government Bond Index	13.00
Cash	
Ninety One GSF Sterling Money I Acc GBP	14.00
European Funds	
Allianz Continental European	1.20
Man GLG Continental European Growth	1.20
Threadneedle European Select	1.20
Corporate Bond Funds	
Allianz Strategic Bond I Acc	6.50
Hermes Global High Yield Credit	3.20
Jupiter Strategic Bond	5.00
Ninety One Global Total Return Credit K GBP Acc	4.00
Vontobel - TwentyFour Absolute Return Credit	6.50
Developed Asia ex Japan Funds	
BlackRock Asia Special Situations	0.50
Schroder ISF Asian Total Return	0.90
North American Funds	
Brown Advisory US Mid Cap Growth B GBP Acc	2.50
Fidelity Funds - American Special Situations Fund	2.00
Loomis Sayles U.S. Growth Equity	3.80
M&G North American Dividend	3.00
Polen Capital Focus US Growth	3.30
Sanlam US Dividend Income	4.40
Global Emerging Markets Funds	
Fidelity Fast Emerging Markets	3.00
MI Somerset Emerging Markets Dividend Growth	1.10
UK Equity Funds	
Franklin UK Managers Focus	0.70
Invesco UK Opportunities	0.50
Schroder Recovery	1.10
Japanese Funds	
Legg Mason IF Japan Equity	1.60
Man GLG Japan CoreAlpha Equity	0.90
Alternative Funds	
Legg Mason Western Asset Macro Opportunities Bond	3.60
Protea ECO Advisors ESG Absolute Return	5.00
Sanlam Multi Strategy Fund	3.80
Sanlam Real Assets	2.50

Key Information	%
Benchmark	
MSCI AC World	35.00
Barclays Global Aggregate UK Government Bond Index	25.00
Barclays Global Aggregate Corporate Bond Index GBP Hedged	25.00
GBP Cash	15.00

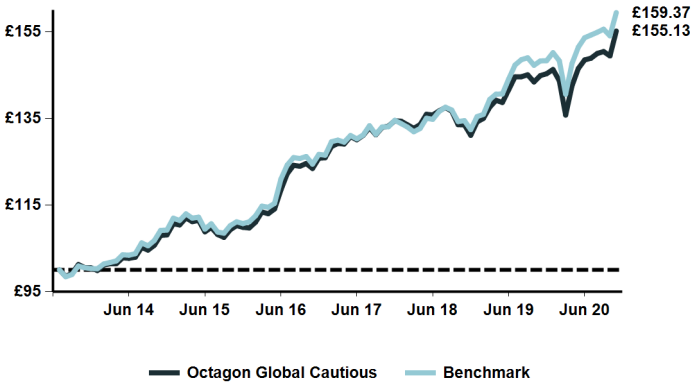
Fees (incl. VAT)	
Annual Wrap fee	0.46
Underlying Manager TER's	0.65

Global Asset Allocation



Cumulative performance since launch*

Growth of £100 investment



Performance (%)	Fund*	Benchmark
1 Month	3.86	3.48
3 Months	3.46	2.94
6 Months	5.91	5.27
YTD	6.78	7.48
1 Year	7.11	7.52
2 Years (annualised)	7.81	8.88
3 Years (annualised)	5.22	6.21
5 Years (annualised)	7.08	7.49
Since Launch (annualised)	6.17	6.56

Risk statistics (since launch)	Fund*	Benchmark
Returns (annualised)	6.17%	6.56%
Standard deviation (annualised)	5.18%	5.23%
% Positive months	63.64%	65.91%
Maximum drawdown	-7.19%	-6.39%
Sharpe ratio	1.06	1.12

* 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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Commentary

Market Review

November produced two notable events in markets. The first was one of the strongest one-month rallies for equities in decades, mainly due to several vaccines proving effective against Covid-19, with global equities rallying more than 9%, in sterling terms. The second was a notable 'factor rotation' out of Growth into Value equities. Following the Pfizer news on the 9th, Value as a factor thrived with cyclical stocks rallying hard, outperforming 'long duration' Growth equities by just over 4%.

North American equities produced solid returns of more than 8% but was dwarfed by the performance of those countries where equity markets are trading at more attractive levels, with more exposure to value, or cyclical stocks, and less dominated by more expensive large cap growth names. European (ex UK) equities rallied nearly 13.4%, closely followed by UK equities.

Emerging Markets delivered robust returns, though slightly behind that of North America, with Latin America and emerging Europe outperforming emerging Asia. China, which has significantly outperformed year to date, underperformed amid a rotation in market leadership.

The improved risk appetite saw high yield and corporate bonds outperform, delivering returns of 4.3% and 2.1%, respectively. Government bonds were the main casualties, with UK Gilts producing a negative return of -0.5%.

Commodities delivered positive returns, aided in part by a weaker US dollar. Energy was the best performing component as vaccine optimism boosted hopes of a sustained recovery in economic activity and energy demand. Precious metals, such a gold and silver fell, as the demand for safe-haven assets waned.

Tactical Asset Allocation and Fund Selection

The models delivered returns ranging between 9.4% on the equity heavy, higher risk end to 3.9% on the more defensive, bond heavy side. Within North America, Sanlam US Dividend was the best performance, aided by its focus on 'value', rising 13.5% and beating the index by 5.4%. Similarly, Fidelity American Special Situations rallied 14.1%, ending the month 6% ahead of the index. Unsurprisingly, the two growth managers, Polen Focus US Growth and Loomis Sayles US Growth lagged the broader market.

In Europe, all three funds lagged the index given their exposures to growth companies. That said, over 1 year all three funds are still meaningfully ahead of the broader index. In the UK, Invesco UK Opportunities and Schroder recovery delivered absolute returns of 19.6% and 25.4%, respectively, and meaningfully ahead of the market. Both funds have a pronounced bias to value stocks. Franklin UK Manager's Focus is more core in its exposures, but does have some small and mid-cap exposure, which helped the fund deliver a return nearly 2% ahead of the index.

Both Legg Mason Japan and Man GLG Japan Core Alpha gently outperformed. Within Asia, BlackRock Asia Special Situations outperformed, whilst Schroder Asian Total Return gently lagged.

Within bonds, we exited our position in Man GLG Strategic Bond and added Vontobel Absolute Return Credit. Overall returns from our fixed income mangers were gently positive, ranging from 0.9% to 4.4% for the month. High Yield bonds were the main beneficiaries of the renewed optimism, whilst UK Gilts, as noted earlier, fell -0.5%. Within Alternatives, three of the four funds delivered impressive returns ranging from 4.1% to 6%, with Protea ECO Advisors rising 0.2%.

Positioning and Outlook

When equity markets rallied on the announcement of Pfizer's Covid-19 vaccine, it showed just how eager investors were for some light at the end of the tunnel. But as global lockdowns persist, it's clear we're not out of the woods yet, and markets pulled back again to reflect that. What we did see, though, was a change in sentiment towards so-called value stocks, which has interesting implications for investors.

Over previous months, the gulf has widened between the performance of growth stocks (companies with good cash flow and earnings that were largely insulated from the effects of Covid-19) and value stocks (companies with cyclical businesses, more dependent on a strong economy, which remain cheap relative to the rest of the markets). Since the market crash in March, growth stocks have more than recovered their losses whilst value stocks still languish below pre-Covid levels.

But news of a vaccine seemed to stem this trend. In November, we saw value stocks rise 6% more than growth stocks. As the clouds start to dissipate over the future economic landscape, this looks set to continue. At the same time, growth stocks could fall out of favour as investors realise the profits they have made and reinvest elsewhere. What we could see is a convergence of the fortunes of these two investment approaches.