Octagon ASSET MANAGERS a graviton partner

28 February 2021 — Octagon Global Flexible Equity

Fund Details

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

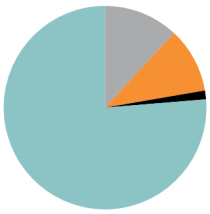
Fund Objectives

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	%
Govt Bond Funds	
Vanguard UK Government Bond Index	3.50
Cash	
Ninety One GSF Sterling Money I Acc GBP	1.40
European Funds	
Allianz Continental European	2.70
Man GLG Continental European Growth	2.70
Threadneedle European Select	2.70
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
Developed Asia ex Japan Funds	
BlackRock Asia Special Situations	1.40
Schroder ISF Asian Total Return	2.30
North American Funds	
Brown Advisory US Mid Cap Growth B GBP Acc	5.50
Fidelity Funds - American Special Situations Fund	5.00
Loomis Sayles U.S. Growth Equity	8.60
M&G North American Dividend	7.30
Polen Capital Focus US Growth	8.00
Sanlam US Dividend Income	9.60
Global Emerging Markets Funds	
Fidelity Fast Emerging Markets	6.40
MI Somerset Emerging Markets Dividend Growth	2.90
UK Equity Funds	
Franklin UK Managers Focus	1.40
Invesco UK Opportunities	1.00
Schroder Recovery	3.10
Japanese Funds	
Legg Mason IF Japan Equity	3.50
Man GLG Japan CoreAlpha Equity	2.20
Alternative Funds	
Legg Mason Western Asset Macro Opportunities Bond	2.50
Protea ECO Advisors ESG Absolute Return	3.00
Sanlam Multi Strategy Fund	3.50
Sanlam Real Assets	2.90

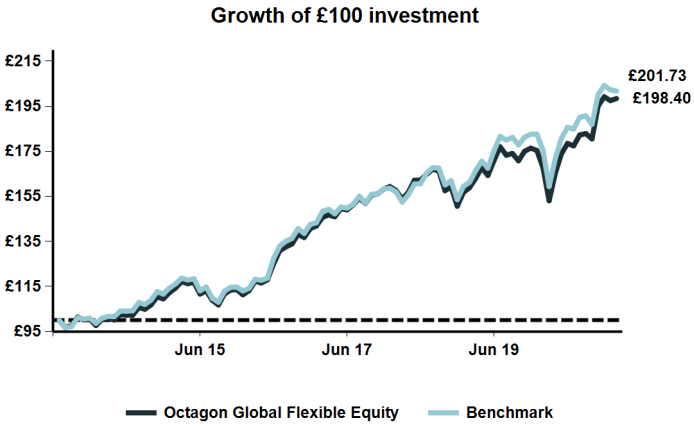
Key Information	%
Benchmark	
MSCI AC World	80.00
Barclays Global Aggregate UK Government Bond Index	9.00
Barclays Global Aggregate Corporate Bond Index GBP Hedged	9.00
GBP Cash	2.00
Fees (incl. VAT)	
Annual Wrap fee	0.46
Underlying Manager TER's	0.92

Global Asset Allocation



Alternatives, 11.9% | Cash, 1.4% | Equity, 76.3% | Bonds, 10.4%

Cumulative performance since launch*



Performance (%)	Fund*	Benchmark
1 Month	0.46	-0.26
3 Months	1.72	0.71
6 Months	8.87	6.12
YTD	-0.39	-1.21
1 Year	18.30	14.96
2 Years (annualised)	11.76	11.86
3 Years (annualised)	7.97	8.71
5 Years (annualised)	11.89	12.06
Since Launch (annualised)	9.46	9.70

Risk statistics (since launch)	Fund*	Benchmark
Returns (annualised)	9.46%	9.70%
Standard deviation (annualised)	9.48%	9.50%
% Positive months	64.84%	65.93%
Maximum drawdown	-13.54%	-12.77%
Sharpe ratio	0.93	0.95

* 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

Global equity markets ended February with positive returns of 0.7%, in sterling terms, despite a drop towards the end of the month. Falling COVID-19 cases across the globe and the rapid vaccination rollout boosted investor sentiment and drove markets higher.

With good progress on vaccination rollouts and economic data pointing towards a recovery, US equities rose 0.9%. This was also the case for UK equities which gained 1.7%, reversing some of the underperformance suffered during the initial stages of the global pandemic. Continental European equities also made positive gains, returning 0.3% over the month.

In Japan, equities rose sharply in early February, before giving up the gains, ending the month with a negative return of -0.3%. Developed Asian equities returned 1% and emerging market equities declined by -1%.

Inflation concerns saw global bonds, in aggregate decline -1.7% over the month, with yields rising sharply. Corporate bonds saw negative returns, with Global Investment Grade Credit returning -1.4% amid the global sell-off in yields. Global Treasuries performed worse, falling -2.2%, whilst High Yield bonds delivered a small positive gain of 0.1%.

In commodities, precious metals struggled with Gold and Silver down -6.1% and -1.2%, respectively. Platinum had a good month, rising 10.7%. Crude Oil and Natural Gas both rose 17.8% and 8.1%, respectively.

Tactical Asset Allocation and Fund Selection

The models delivered mixed returns over the month, ranging from -0.9% on the bond heavy, more cautious side, to 1.2% on the equity heavy side. Within North America, no style dominated in what was a choppy month. On the value side, Fidelity American Special Situations outperformed, whilst Sanlam US Dividend lagged. On the growth side, Brown Advisory UK Mid-Cap and Polen Focus US Growth beat the index, whilst Loomis Sayles US Equity Leaders underperformed.

In Europe, all three funds lagged the index, whilst in the UK, the deeper value Schroder Recovery and Invesco UK Opportunities meaningfully outperformed, aided by their style. To the east, Man GLG Japan was the standout performer, aided by its deep value style, returning 8.5% and more than 8.8% ahead of the broader market. The strong gains more than offset the weaker returns from the growthier Legg Mason Japan.

Within emerging markets, Fidelity Emerging Markets and Somerset Emerging Markets Dividend Growth beat the index. Similarly, both BlackRock Asian Growth Leaders and Schroder Asian Total Return outperformed in Asia.

Bonds sold down as yields rose, with the shorter dated managers selling of less than their longer dated counterparts. In alternatives, all four funds delivered negative returns ranging between -0.8% to -3.4%.

Positioning and Outlook

Forward-looking economic indicators such as the Purchasing Managers' Index (PMI) are improving, with the PMI's manufacturing index at its highest level for over two years. In April 2020, the average index score across the G20 was 36. In January 2021, it was 54, signifying an outlook of growth and expansion.

Governments are being empowered to spend by central banks, with the US leading the way in supportive monetary and fiscal policy, which should help to fuel economic growth. In addition, vaccines will ultimately enable the reopening of a meaningful economy, which will reduce unemployment levels and unleash pent up consumer spending.

However, Year-on-Year inflation data is expected to pick up in the months ahead as the economy, and commodity prices, rebound. It seems likely any pick-up in inflation will prove transitory. The forces that have brought disinflation, such as globalisation and demographics, would appear to predominantly remain in place.

The US Federal Reserve (the Fed), for their part, continue to say they are not concerned, with consumer prices expected to move higher "along a trajectory consistent with achieving the Committee's objectives over time…"

Any meaningful economic or market weakness over the last decade has been met with Central Bank liquidity (QE) and never more aggressively than last year. In the case of the US, that liquidity is promised to continue, at $120bn per month, for the rest of the year, at least. On top of this vast stimulus bills and potentially pent-up savings and demand are waiting to be unleashed. So, the market faces a conundrum on the 'Fed Put', and potentially much stronger corporate earnings.

The Fed cannot solve an (excess) inflation problem by adding liquidity. And, given the robust economic rebound that is expected, and of which there are some early signs, the market fears the promised liquidity will not, and probably should not, last.

Most simply, if we see regenerating inflation, the 'lower for longer' paradigm of the last few years will be questioned as will associated asset valuations. If Inflation fades as quickly as it appears, we could be back to 'as we were' relatively quickly. For now, a high degree of uncertainty exists.

We, as always, take, and recommend, a balanced approach. So, our models include Value and short-duration assets. These are helping. However, if the Fed liquidity supply is to be challenged (at least in the markets' mind) by an inflation threat we could see a further correction lower in asset prices and we could see more volatility.

Cyclical shares look good against this backdrop. Valuations are generally not high, and their earnings should benefit more from a cyclical recovery. Yet all assets are now at higher risk of a policy misstep, and contagion from a 'Growth' sell-off could spread.