PORTFOLIO POSITIONING UPDATE MARCH 2021

16 March 2021

momentum
global investment management

Performance

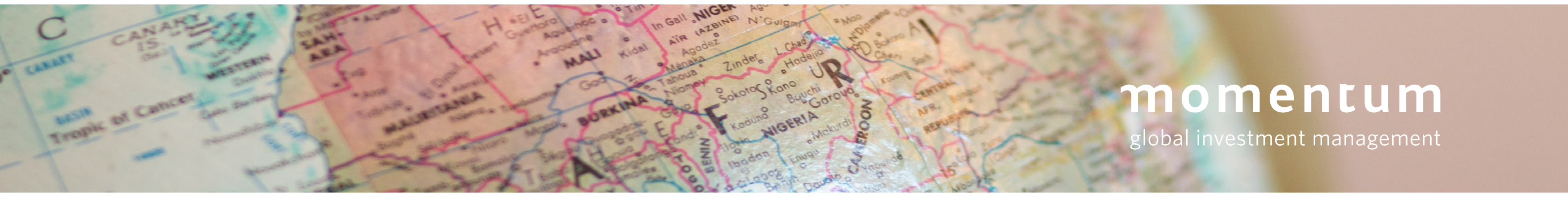
The Fintax Balanced Fund returned 0.7% in February and the Fintax Growth Fund returned 2.2%. Over the past 12 months the Funds have returned 16.2% and 20.9% respectively in US dollars.

Portfolio changes

Government bond yields rose sharply in February. US 10 year yields rose 34 basis points (0.34%), their biggest monthly rise since November 2016, while in Germany and the UK, yields rose by 26 basis points and 49 basis points respectively. **Given that the level of government bond yields sets interest rates on all other forms of borrowing in the economy, from mortgages to credit cards, these moves are significant, but they do not necessarily presage a decline in markets; instead they should be seen as a sign of growing optimism regarding the strength of the recovery to come, as economies reopen later this year.** As a result, and despite the rising discount rate, equities, property and high yield bonds all posted gains over the month. Rising yields mean falling bond prices, and US Treasuries fell 2.3% over the month. **The Funds have limited exposure to government bonds, with the Balanced Fund holding 2.5% in Treasuries and a further 7% in Treasury Inflation Protection Securities (TIPS), which, as the name suggests, are protected from rising inflation, while the Growth Fund has no exposure.**

Growth stocks falter

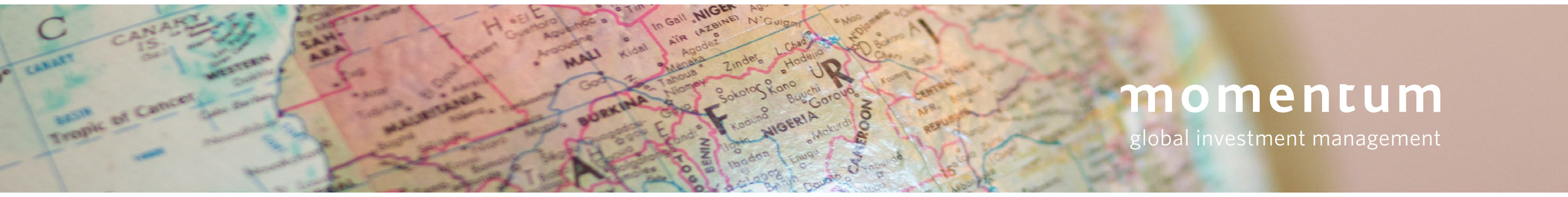
Growth stocks – companies with high growth rates and equally high price tags to match – have struggled this year. **Google (parent company Alphabet) is the only one of the FAANG stocks (the group of fast growing tech-enabled companies, that also includes Facebook, Amazon, Apple and Netflix, and whose products have become ubiquitous in recent years) to be in positive territory as at the end of February, while on the other side energy and financials stocks are up by more than 10% for the year.** These moves have been driven, in part, by rising interest rates: growth stocks are typically expected to deliver more money to shareholders in later years and therefore as interest rates rise, the opportunity cost of waiting for this growth to materialise also rises, leading the value of shares to fall as has been the case so far this year.



Vaccine news leads to inflection point for value versus growth

Looking through the underlying managers in the Fintax Growth Fund to the top 10 equity holdings, our technology positions have not been immune to these moves. **Diversifying outside of the US has been rewarded however: Sea, a leading internet company in Southeast Asia and Taiwan, has been the best performing stock among the top 10 year to date, up 18% to the end of February, followed by Chinese tech giant Tencent.** Alphabet has added 15% year to date, after significantly outperforming analysts' forecasts for both sales and earnings in Q4 2020.

Fintax International Growth - Top 10 Equity Holdings		
Ticker	Holding	Industry
GOOGL	Alphabet Inc. Class A	IT Software
V	Visa Inc. Class A	Other Financials
SE	Sea Ltd. (Singapore) Sponsored ADR Class A	IT Software
MSFT	Microsoft Corporation	IT Software
FB	Facebook, Inc. Class A	IT Software
AMZN	Amazon.com, Inc.	Consumer Products & Retail
BAX	Baxter International Inc.	Health Care
CHTR	Charter Communications, Inc. Class A	Consumer Services
700	Tencent Holdings Ltd.	IT Software
ADYEN	Adyen NV	IT Software



While the Growth Fund’s top 10 now includes six IT companies, the rest of the Fund’s equity allocation contains a significant amount of cyclical exposure, which has been the beneficiary of the rotation out of last year’s winning growth companies. **As a result, our equity blend has outperformed this year, led by our value managers, Hotchkis & Wiley (up 12% to the end of February) and Lyrical (up 9% over the same period).**

Outlook

Interest rates, both nominal and real, have risen sharply around the world, with yields in the US leading the way following the swift passage of President Biden’s American Rescue Plan, which pumps a further $1.9 trillion into the economy, approximately half of which will find its way directly into consumers’ pockets, raising the prospect of a swift recovery. These moves have weighed on tech names, and while the Funds have not been immune, they are less exposed to this area compared to peers chasing last year’s winners. **In our view, rising interest rates reflect growing confidence in the outlook, including a strong rebound in the earnings of cyclical companies, which bodes well for our positioning. There are likely to be bouts of volatility along the way however, and risks around long term scarring of economies are by no means extinguished, hence we need to remain watchful. Both Funds continue to own protection in the form of gold, cash and equity index put options, but despite holding exposure to these defensive assets, they have nonetheless participated fully in the rebound in markets to date.**

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