PORTFOLIO POSITIONING UPDATE APRIL 2021

22 April 2021

momentum
global investment management

Performance

The Fintax Balanced Fund returned -0.1% in March and the Fintax Growth Fund returned 0.3%. Over the past 12 months the Funds have returned 35.7% and 47.7% respectively in US dollars.

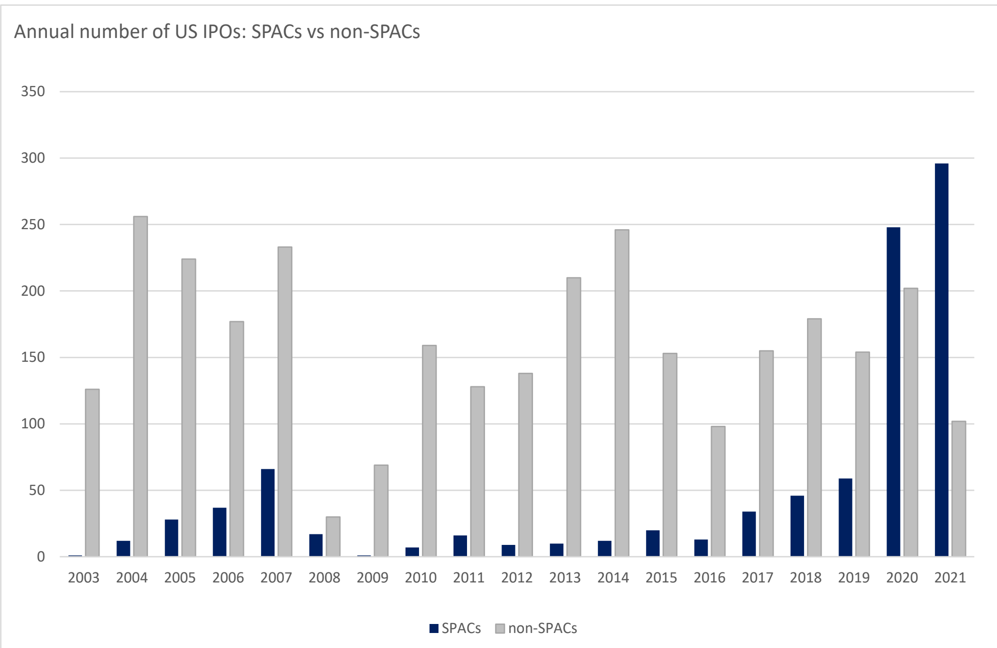
Market Review

The recovery and reflation trade continued in March, manifested most clearly in sharp falls in bond markets, with last month capping off one of their worst quarterly returns in decades. To highlight how sharp the recent moves have been, the 10-year Treasury yield ended the month at 1.74%, having been 0.5% at the low in August 2020 and 0.9% at the start of the year.

Risk assets performed strongly over the month; developed equities returned 3.3% and outperformed emerging markets which had a difficult end to the quarter, led by a 6% fall in China, by far the largest market in the emerging markets index. The rotation away from highly valued growth businesses, into the more cyclical, lower-valuation parts of the market has been a noticeable trend in recent months and continued in March. This resulted in the funds' growth managers, particularly Sands and Jennison, underperforming the broader market and detracting from performance. The underperformance was offset in part by the strong performance from the funds' value managers, Artisan, Lyrical and Hotchkis & Wiley. With real yields on bonds rising, safe havens underperformed, with gold prices falling by -1.5% in March.

SPAC-tacular Surge

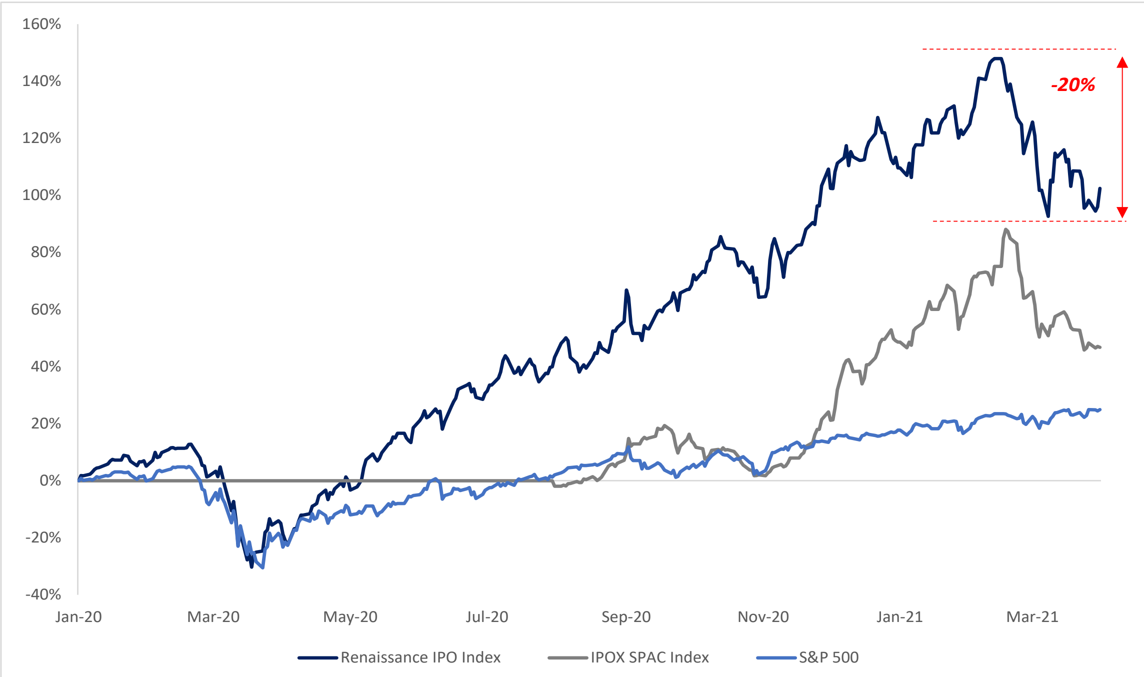
A trend that has caught the attention of investors in the first quarter of 2021 has been the record-breaking activity within the initial public offering (IPO) market and the rise in popularity of Special Purpose Acquisition Companies (SPACs). In short, a SPAC is a shell company set up by investors with the sole purpose of raising capital through an IPO to eventually acquire a private company. Pandemic aside, 2020 has been referred to as the 'Year of the SPAC' in the US as the number that floated on the stock market reached an all-time high, with over $80bn raised across more than 240 SPAC listings, accounting for over half of all listings on the US market.



Source: SPAC Analytics, MGIM. 31st March 2021.

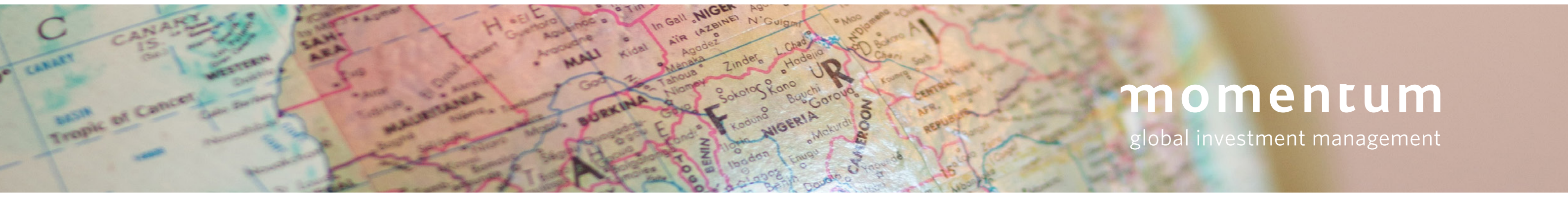
The IPO market has been dominated by the tech and healthcare sectors which have been the main beneficiaries of the pandemic. Supportive monetary and fiscal stimulus, ultra-low interest rates and global markets at record levels have fuelled the IPO activity. In 2020, IPOs strongly outperformed on average, both on the first day and in the aftermarket in terms of share price growth. The Renaissance IPO Index which tracks a basket of the largest US-listed newly public companies, outperformed broader equity markets in 2020, returning 110% compared to the 18% return recorded by the S&P 500.

However, this momentum has not been sustained in the first quarter of the year. Since hitting a peak in mid-February, both the Renaissance IPO Index and the IPOX SPAC Index have fallen by 20%. Concerns have mounted about valuations and a bubble forming in that corner of the market. As the reflation trade has taken hold, technology stocks and other pandemic winners have lagged the broader market, and this has weighed on the performance of some companies that have recently listed, both via the traditional IPO process and SPACs.



Source: Bloomberg, MGIM. 31st March 2021.

The unprecedented surge in IPO activity and the popularity of SPACs has largely been a US phenomenon so far, and has coincided with, and no doubt been supported by, huge liquidity injections from central banks around the world. The Fintax Funds access private companies before the IPO stage through Chrysalis Investments, a publicly listed investment trust which provides diversified exposure to high growth private companies, primarily in the UK and Europe, earlier on in their development. Chrysalis shares have returned 123% to investors over the past 12 months and the highly supportive environment for public listings could provide opportunities for some of the underlying investments to seek a listing on attractive terms.



Outlook

Inevitably, we expect bumps along the way as we head into and through the economic boom to come. However, we need to keep the risks in perspective. Inflation expectations have risen but have returned essentially to pre-pandemic levels and are causing few concerns among central banks. There remains ample slack in economies and employment levels are well below pre-pandemic levels. Bond yields have risen but from the lowest levels in history and are still well into negative territory in real terms.

With one of the biggest economic recoveries in history ahead, these do not appear to be the conditions for a sustained fall in risk assets. We expect bouts of volatility and we are still cautious about bond markets, but yields on longer dated maturities are beginning to return to more realistic levels, and equities offer good opportunities to participate in the recovery, especially in value sectors, which have only in recent months begun to recover some of their underperformance against growth stocks of the past few years.