# PORTFOLIO POSITIONING UPDATE JULY 2021

20 July 2021

momentum
global investment management

## Performance

Fintax Balanced returned 0.2% in June and Fintax Growth returned 1.2%. The Growth fund participated in most of the market upside over the month, while both funds comfortably outperformed global bonds, which fell -0.4%.

The reflation trade, which has favoured cyclical businesses like energy and material companies, paused in June as the spread of the COVID-19 delta variant pushed back the reopening of economies. Global technology stocks added 7% over the month, while more economically sensitive areas such as materials and financials fell by around 4%. Inflation expectations beyond the next 12 months have declined and remain within the range of the past decade. As the inflation discounted by the market today doesn't look particularly high to us, we continue to retain our allocation to inflation linked bonds in the lower risk Balanced Fund to protect against inflation surprises.

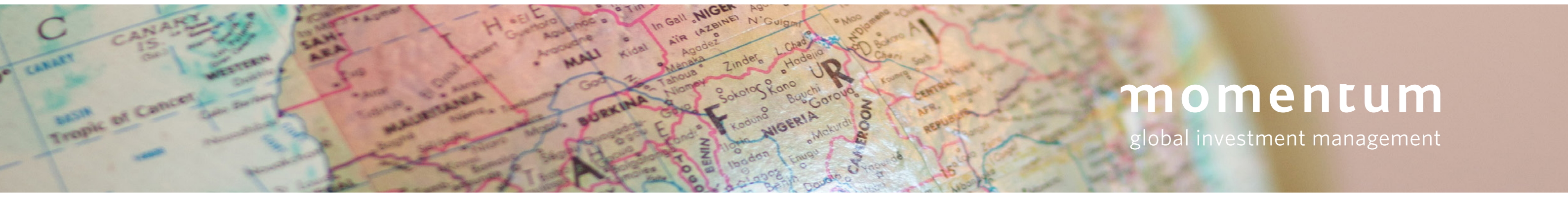
## Portfolio changes

We elected to roll our equity index put options to the end of September: if the S&P 500 index, which measures the prices of the largest US stocks, is lower at the end of September than it is today, these options will pay out, thus protecting the Fintax Funds to an extent. Option prices are cheap relative to their history and therefore we continue to hold options as an excellent hedge against potential bouts of volatility.

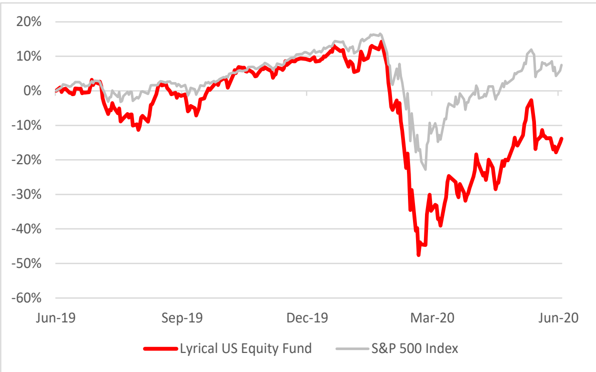
## What are things worth?

With prices updated throughout the day, financial markets provide a convenient guide for investors trying to understand the value of their portfolios. However, they are not always a reliable guide. We saw the stock market's short-term failings in 2020 as COVID-19 brought company valuations down to levels that implied their futures were permanently impaired. Share prices in the longer term will almost certainly be closer to (and above) the recovered prices that we see today rather than the distressed levels of 2020.

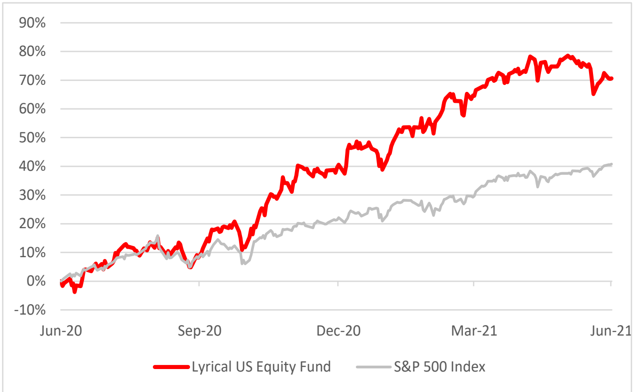
Having conviction that times will change and prices will rebound requires other tools for discerning true, intrinsic worth, namely a focus on business fundamentals. This includes an assessment of a company's assets and their historical income/dividend generating potential, as well as the potential for future profit expansion. This approach has worked well for Lyrical, our US equity specialist, whose performance has rebounded over the past 12 months following a disappointing 2019/20:




Underperformance between June 19-June 20



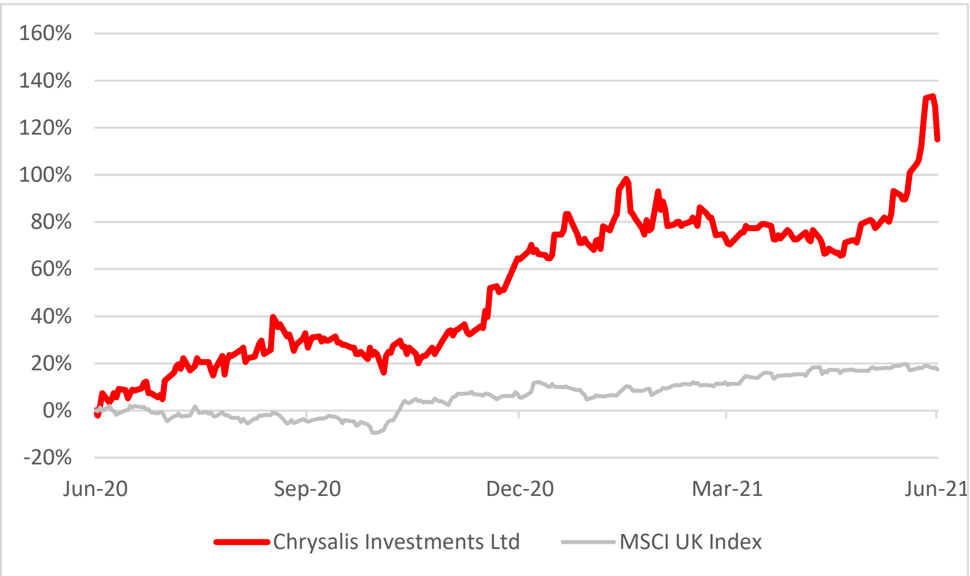

Subsequent outperformance between June 20-June 21



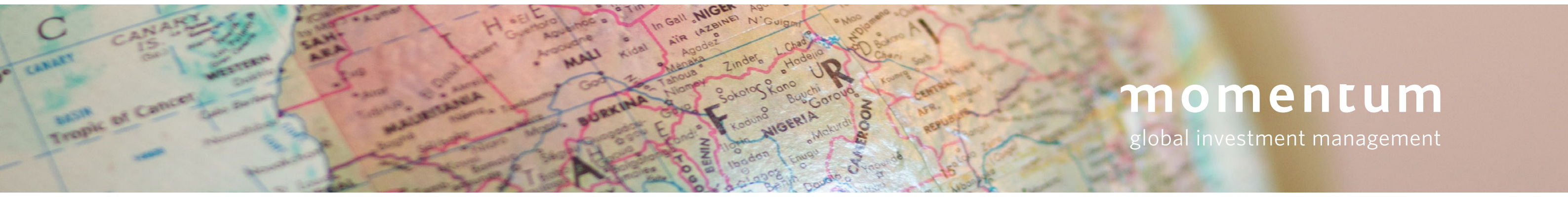

Source: Bloomberg Finance L.P.

Lyrical made just five changes to their portfolio in 2020/21, but the stock market's assessment of the value of their holdings changed markedly, as these charts show.

A lot of the tools described above are backward-looking. We want to make sure the Fintax Funds don't exclusively own established, dividend-paying companies and therefore miss opportunities in innovative new businesses. The Funds' investments in Chrysalis, an investment trust which raises capital to buy late stage private companies, some of which are still loss-making as they pump resources into growing their customer base, has also been extremely rewarding over the past 12 months. Chrysalis own stakes in fast-growing companies including Klarna (online payments), Wise (fintech solutions), THG Plc (online shopping) and Embark (digital retirement solutions). The trust has sufficient scale and capital to attract and dictate terms of deals, and has executed on the strategy they set out at launch in 2018.




Source: Bloomberg Finance L.P.





We maintain a blend of managers in the Funds to ensure we are exposed to the asset classes we want; parts of the world that offer attractive returns; and also different types of companies, both new and established. Our active managers are able to look through short term dislocations in markets, to good returns in future.

Outlook

The recent rise in covid cases around the world has been significant, prompting countries including the US, Japan, Australia and South Africa to introduce additional restrictions. However, with the latest data showing vaccinations are helping to reduce hospitalisations and deaths, we maintain our view that vaccine programmes offer a credible path out of the pandemic for economies. Thus, with the economic boom still upon us, we think equities and other economically sensitive assets offer good prospective returns from here. Notwithstanding this positive outlook for risk assets, we continue to own protective assets in the form of the aforementioned put options, as well as precious metals, cash and bonds in the Balanced Fund, to protect against bouts of volatility.

Parts of South Africa have witnessed social unrest following the 15-month imprisonment of former President Jacob Zuma. This unrest has resulted in loss of life, damage to infrastructure and extensive looting of businesses. Besides concerns over food shortages and supply chain disruptions, it is deeply concerning that many of these businesses will take months to reopen their doors (if they decide to at all) which will put further upward pressure on the unemployment rate. This clearly comes at a very difficult time for South Africa, as the country tries to rebuild in the wake of the pandemic, but we trust that South Africans will show the same resilience as they have done in the past and that conditions have improved materially by the time you read this.

***Important Notes***