PORTFOLIO POSITIONING UPDATE AUGUST 2021

24 August 2021

momentum
global investment management

Performance

The Fintax Balanced Fund returned 1.5% in July and the Fintax Growth Fund returned 0.7%. Over the past 12 months the Funds have returned 19.7% and 27.8% respectively in US dollars.

Portfolio positioning

July was another positive month for risk assets, with global equities returning 0.7% in US dollar terms. Interestingly there was a fair amount of divergence between styles and sectors, with high quality companies outperforming relative to cheaper value stocks. Part of the reason for this was the remarkable decline in bond yields which saw US Treasuries deliver positive returns of 1.4%, outperforming global equities. The 10 year US Treasury yield is now at its lowest since February at 1.22%.

We made no significant changes to the Funds during the month as we remain broadly happy with our positioning. The Growth Fund is mostly invested in equities which comprise 88% of the total portfolio, with the remainder in protective assets such as gold, cash, and put options. The Balanced Fund has a more modest 48% in equities, with 24% in fixed income, 10% in real assets, 8% in commodities and the remainder in cash and put options.

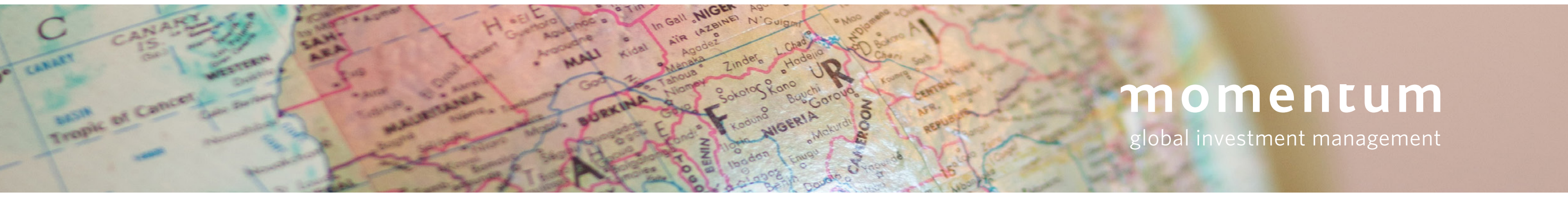
Our Top 10 stocks

Our approach to manager selection ensures that we have a healthy mix of stocks and styles in the portfolio. This month we wanted to provide an update on the top holdings within our equity component, which gives you an idea of the range of different companies we own within different industries.

Fintax Equity Allocation - Top 10 Equity Holdings		
Holdings	**% of total Equity**	**Industry**
Alphabet Inc. Class A	3.6	IT Software
Microsoft Corporation	1.9	IT Software
Sea Ltd. (Singapore) Sponsored ADR Class A	1.7	IT Software
Facebook, Inc. Class A	1.6	IT Software
Visa Inc. Class A	1.5	Other Financials
BAE Systems plc	1.2	Industrials
Amazon.com, Inc.	1.2	Consumer Products & Retail
Charter Communications, Inc. Class A	1.1	Consumer Services
Airbus SE	1.1	Industrials
Thermo Fisher Scientific	1.0	Health Care

The first thing to note is that all of the above are large, liquid companies with a very active secondary market. The average market capitalisation of these names is $789 billion, and they are all well-established businesses with significant revenue and plenty of cash flow.

Many names such as Alphabet (Google's parent), Microsoft and Facebook will be familiar with readers, but we have seen some new names enter the top 10 in recent months. One of these is BAE Systems, one of the world's top defence contractors. The truly global nature of its business has improved the sustainability and predictability of revenues relative to peers who can be overly dependent on US government contracts. Furthermore, the company has been well managed under current CEO Charles Woodburn, and their disciplined approach to capital allocation is exemplified by the £500m share buyback scheme that was announced this month.



Another new entrant to the top 10 is Thermo Fisher Scientific, a US listed Health Care equipment and services firm. Ironically, performance of the Health Care sector has lagged the market since the first vaccine was announced at the start of November, despite the fact that it has been crucial in combatting the virus and ending lockdowns. Thermo Fisher itself has played a key part in the recovery as it is a top producer of testing kits, and $1.9bn of its $9.3bn revenues last quarter were directly derived from its covid response efforts. The strides it has made over the last 18 months have established the company as a true leader in diagnostics, and we believe the capacity it has built up will be put to profitable use as the pandemic gradually fades into history.

Outlook

Looking forward, we remain positive on the prospects of the global recovery, and we see plenty of potential for capital gains in our equity holdings as a result. The addition of value managers such as Hotchkis and Wiley over the last year have contributed meaningfully to returns, and we believe that they have plenty more room to rally over the medium to long term. While we remain upbeat, we are cognisant of the unusual size and duration of the rally that global equity indices have been on since the depths of the covid crisis, and we retain a diversified bucket of hedging securities in both funds to mitigate any short term market weakness that may come through. At current yields, US Treasuries have some risk on their own, and so we continue to complement these with gold, silver, real assets, cash and put options as effective diversifiers within the funds.

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