

# Strong conviction STABLE RETURNS



## OBI Active 3 – November 2019 Portfolio Update

### Investment Objective

This portfolio is NOT a risk-free portfolio, rather, it is suitable for a client who requires stability of capital and is prepared to accept small levels of capital losses when markets are falling, based on the higher non-equity asset allocation. The portfolio is managed dynamically by altering the asset allocation and by predominantly using low-risk assets that carry market risk and using all assets that are available from the investment universe. The asset allocation in this portfolio will vary between a benchmark of 0% equity and 35% equity on average to achieve the portfolio objectives, provided economic conditions permit. The portfolio will be managed to try and limit the **indicative capital loss in any rolling 12-month period to 6% in a significant event and 4% in normal market conditions** and to target an **annualised total return averaged out over an economic cycle (usually 5 – 7 years) of 4% per annum before any adviser, custodian, switch and/or discretionary investment management fees, but after fund manager charges**. Despite the higher allocation in non-equity assets, these asset classes are in some cases becoming riskier than equity assets, however we feel that the current positioning is acceptable when we consider our mandate regarding a client’s capital loss acceptance.

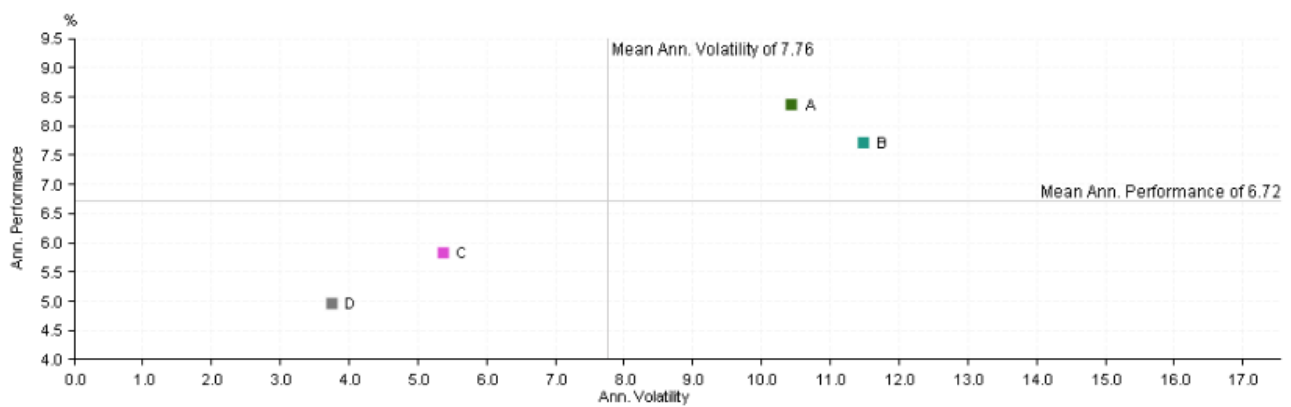
The benchmark we use for comparison purposes for volatility is **AFI Cautious** noting this benchmark currently **holds 48.71% in Equity (Analytics 6<sup>th</sup> November 2019)** and is therefore more aggressive than this portfolio and has no capital preservation mandate. It would be expected therefore that the benchmark would outperform the model and that the volatility of the benchmark would be higher. The model performance therefore cannot be directly compared to the benchmark.

OBI Active 3 Performance – Source Analytics 5<sup>th</sup> Nov 2019

Asset	1 Month	3 Months	6 Months	12 Months	YTD	3 Years	5 Years	7 Years	Since Launch (01/06/2009)
OBI Active 3 Portfolio	-1.13%	-0.49%	2.30%	2.57%	3.76%	9.16%	13.78%	28.20%	89.21%
Benchmark	0.80%	0.85%	2.95%	6.53%	9.74%	14.69%	27.72%	46.93%	99.02%
UK Gilts	-6.05%	-1.24%	9.87%	14.75%	12.41%	15.58%	48.25%	60.43%	134.81%
FTSE 100	3.45%	3.75%	2.46%	8.87%	14.28%	25.20%	38.38%	66.47%	143.46%

Scatter Chart Reflecting Volatility and Annualised Return in GBP over the past 10 years

Pricing Spread: Bid-Bid • Currency: Pounds Sterling



31/10/2009 - 31/10/2019 @FE fundinfo 2019

Key	Name	Annualised Performance	Annualised Volatility
A	FTSE Actuaries UK Conventional Gilt Over 10 Years TR in GB	8.37	10.43
B	FTSE 100 TR in GB	7.72	11.48
C	AFI Cautious TR in GB	5.83	5.37
D	OBI Active 3 - 14 Nov 2019 TR in GB	4.98	3.75

## Outlook & Positioning

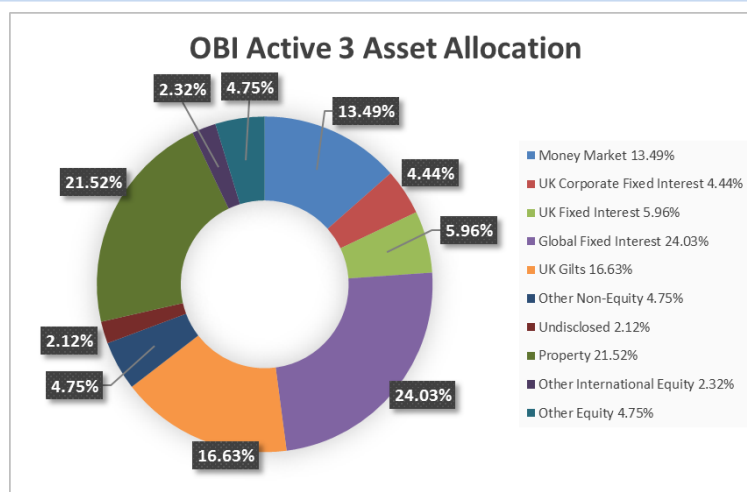
OBI Active 3 is a cautious portfolio with a higher non-equity allocation based on a low-risk mandate, with the delivery of outcome and capital preservation at its core which aims to achieve a return outcome of 4% per annum.

In December last year, following a series of more negative economic data and a continuation of uncertainty over future trade and political movements, an in-depth analysis of the economic situation highlighted excessive risks in the global economy. This prompted us to act on the capital preservation mandate and position our portfolios defensively in preparation for difficult trading conditions over 2019. As it stands, portfolios are defensively positioned, with low equity exposure as we await further clarity in markets.

After a challenging first quarter in which markets rallied from last year's losses despite an increasingly uncertain global economic outlook, the portfolio performed strongly as downside risks mounted over the second quarter. Moving into the second half of the year, after the Fed rate cut underwhelmed equity markets at the end of July, risk-off sentiment spread throughout financial markets during the third quarter, as a deterioration in the economic data and risk off sentiment in bond markets triggered recessionary concerns. As a result, the portfolios performed well over the quarter, owing to their inverse correlation with equities and high non-equity, defensive asset exposure. More recently, after a second Fed rate cut in September, optimism over an interim US-China trade deal and fading concerns over a no-deal Brexit, risk on sentiment spread throughout the financial markets in October, with global equity markets regaining lost ground over the month. As a result of increased volatility and risk on sentiment despite deteriorating data, the portfolios performed poorly over the month, due to their inverse correlation with equities and excess volatility in the UK Gilt exposure due to Brexit uncertainty. As geopolitical tensions persist and central banks become increasingly concerned with economic growth, professional investor sentiment has been shifting to the downside. The economic data now suggests that we are in bear market, with high volatility and significant risks persisting in the global economy.

Based on the indications of reduced spending and lower economic growth, our expectation is that economic data will become more negative in the near term, as the performance of key lagging economic indicators and a continuation of geopolitical tensions results in a selloff in equities. When this selloff happens, our defensive positioning allows us to protect against downside and reduce volatility while gaining relatively consistent returns from the core holdings within the portfolio. Providing we get the re-entry point right for reinvesting into equities, we intend to capture upside returns in the recovery stage, and we remain optimistic about 2019 portfolio returns.

The portfolio has been constructed with a high level of diversification in terms of asset classes and geographies. The portfolio currently follows a defensive strategy, with a higher weighting of non-equity exposure due to risks facing equity markets, with bond exposure which performs particularly well during periods of weakness. The low level of equity exposure within the portfolio is gained through exposure to diverse, globally managed multi-asset funds, and short equity positions which seek to benefit from a decline in markets. We would expect the equity content within the portfolio to fluctuate over the year as we reinvest into equities, becoming more in line with the mandate of the portfolio as opportunities return.



\*Undisclosed asset sector represents the allocation to inverse ETFs and long/short equity assets which have been regarded here as non-equity due to their inverse relationship with equity markets.

**Equity: 7.07% – Non-Equity: 92.93%**

## Portfolio Facts

**Benchmark Index for Volatility –** AFI Cautious

**Historical Yield:** 2.09%

**Portfolio Expense:** 0.62% p.a

## Important Information

- All data in this document has been extracted from Analytics as at **6<sup>th</sup> November 2019**.
- The value of investments may fluctuate in price or value and you may get back less than the amount originally invested. Past performance is no guarantee of future performance.
- Unless otherwise instructed any accrued income is reinvested into the portfolio.
- Portfolio Expense represents the total strategy cost and does not include the adviser charge. This is based on the Fusion platform and may vary for other platforms.

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