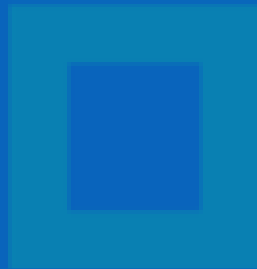


Balancing Risk & Return in Times of Market Distress





Laurentius van den Worm
Investment Strategist - Timeline



timeline
MONEY FOR LIFE

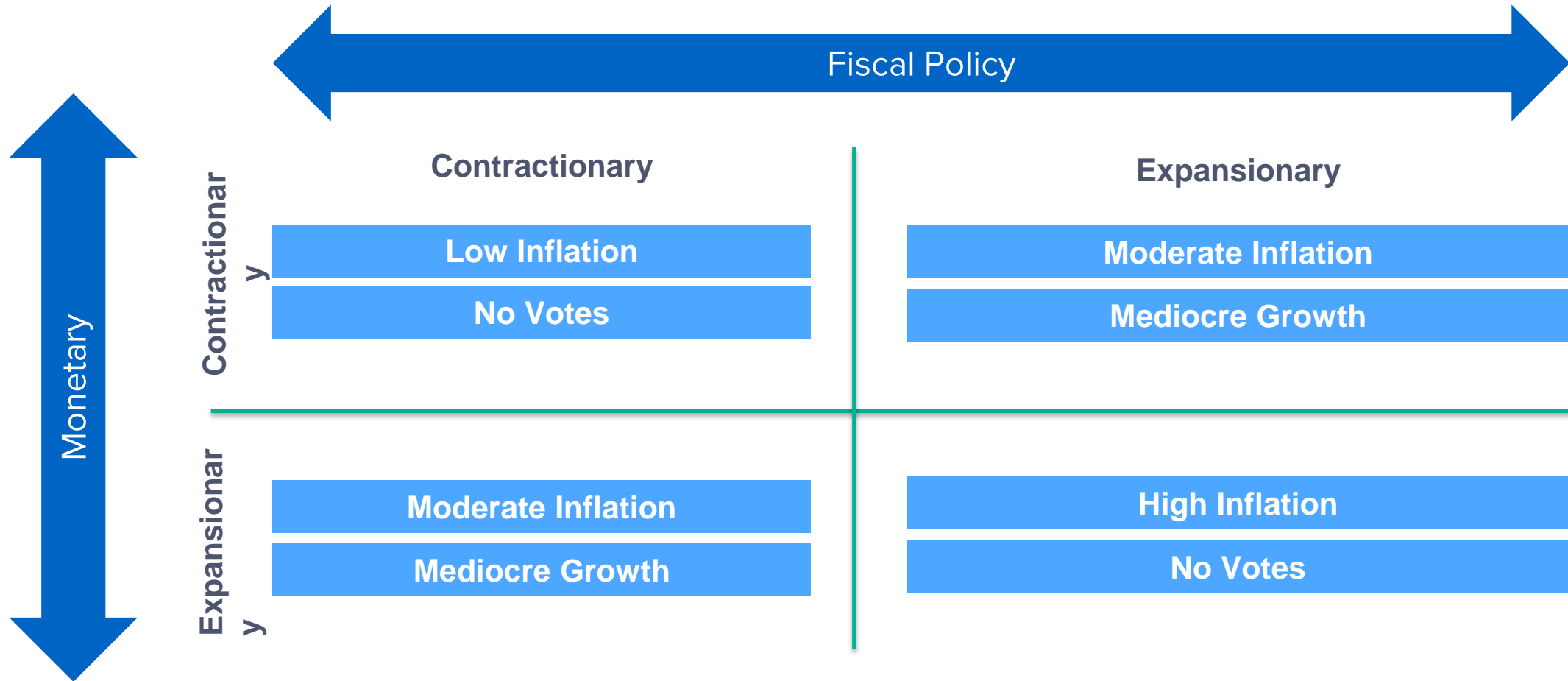


Learning objectives

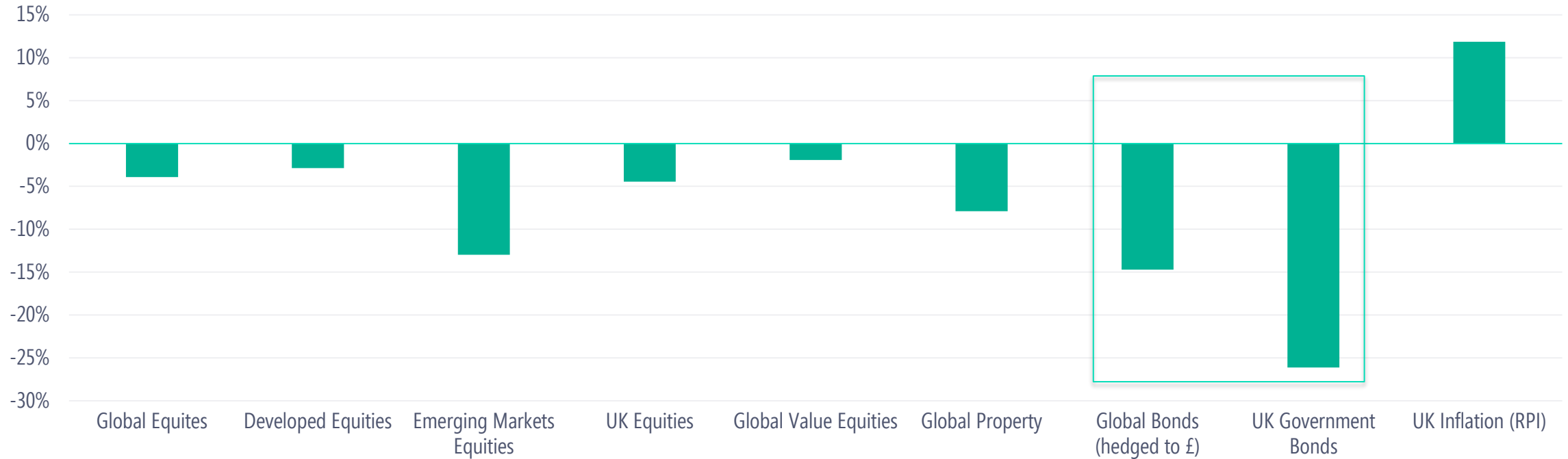
-  1 Analyse Fiscal and Monetary interaction based on recent market events
-  2 Analyse the recent behaviour of fixed-income and other asset classes
-  3 Evaluate the role of fixed income in a multi-asset portfolio
-  4 Explore tools for efficient portfolio management



Fiscal vs Monetary: The prisoner's dilemma



12-month Asset Class Returns

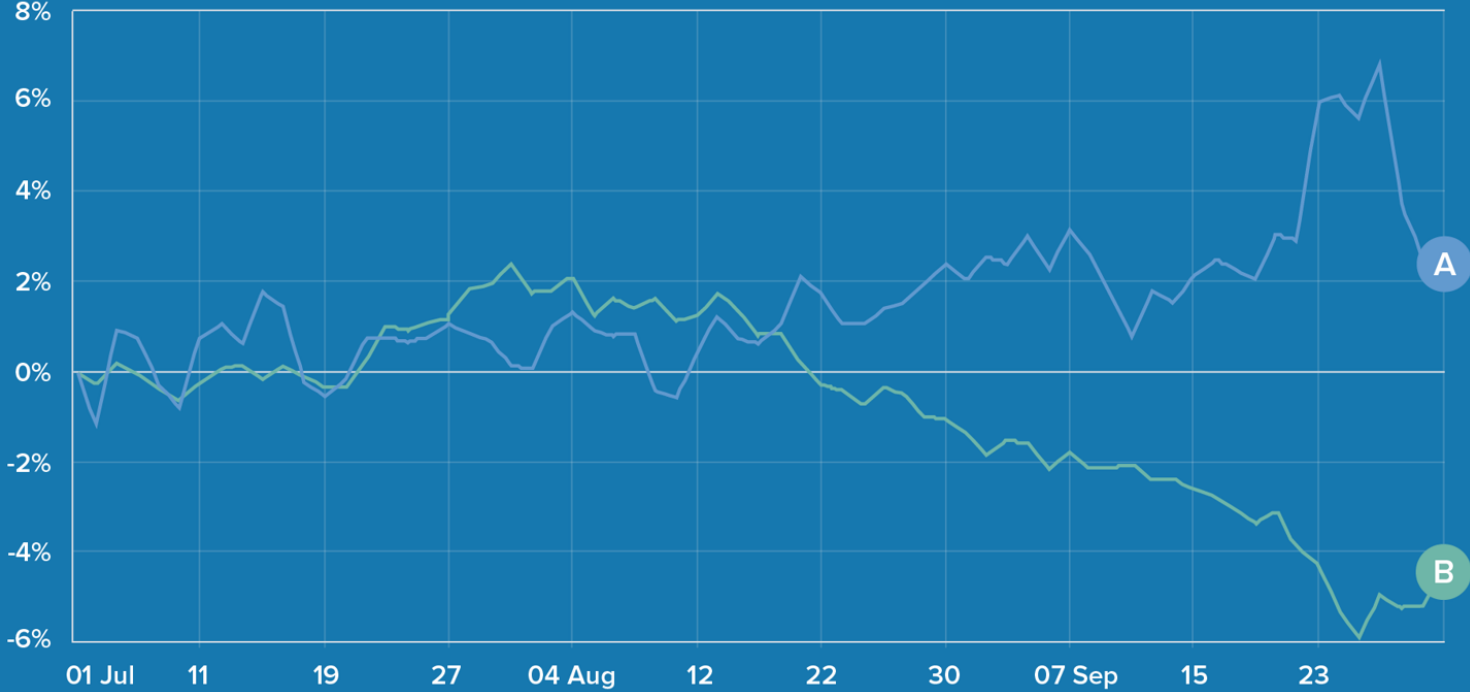


Source: Timeline (2022 Developed Equities: iShares Developed World Index; Emerging Markets: Vanguard Emerging Markets Stock Index; European (ex-UK) Equities: Fidelity Index Europe ex UK; Global Bonds (hedged to £): Vanguard Global Bond Index Hedged; Global Equities: iShares MSCI ACWI UCITS ETF; Global Property: iShares Global Property Securities Equity Index; Global Value Equities: Dimensional Global Core Equity; Japanese Equities: Fidelity Index Japan; UK Equities: Vanguard FTSE U.K. All Share Index Unit Trust; UK Government Bonds: Vanguard UK Government Bond Index; UK Inflation (RPI): Index: UK Retail Price Index; US Equities: Fidelity Index US. Performance periods: 1 Year: 30/09/2021 - 30/09/2022; 3 Year: 30/09/2019 - 30/09/2022, 5 Year: 30/09/2017 - 30/09/2022; 7 Year: 30/09/2015 - 30/09/2022..



Fixed Income: What is driving the underperformance?

Sterling Depreciation



A - Vanguard - Global Bond Index Hedged Acc USD in GB (2.34%)

B - Vanguard - Global Bond Index Hedged Acc GBP in GB (-4.43%)

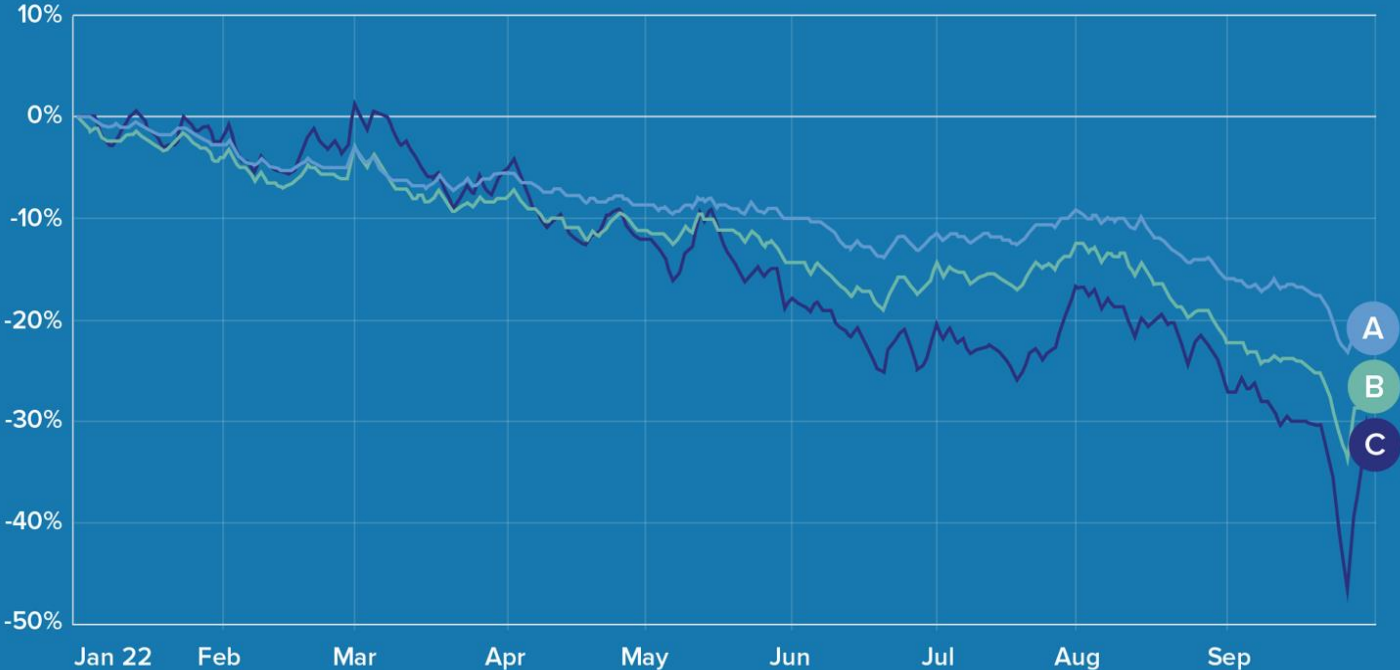
Source: Timeline (2022). Measured by the performance of the Vanguard Global Bond GBP hedged index, which is closely tracking the performance of the Bloomberg Global Aggregate Float-adjusted and scaled GBP Hedged Index. Performance period: 01/07/2021 - 03/10/2022.



Fixed Income: What is driving the underperformance?

Long Duration Sell-Off:

- ❑ Monetary Tightening
- ❑ Rising Debt
- ❑ LDI

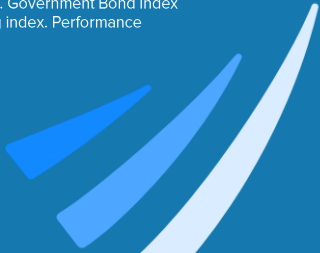


A - UK Corporate Bonds (-21.61%)

B - UK Government Bonds (-28.16%)

C - UK Inflation-Linked Bonds (-33.08%)

Source: Timeline (2022). UK Corporate Bonds measured by the Vanguard U.K. Investment Grade Bond Index Fund, UK Government Bonds measured by the Vanguard U.K. Government Bond Index Fund and UK Inflation-Linked measured by the Vanguard U.K. Inflation-Linked Gilt Index Fund. All funds are closely tracking the performance of their underlying Bloomberg Index. Performance period: 31/12/2021 - 03/10/2022



Liability Driven Investing (LDI)

"...gaining enough assets to cover all present and future liabilities."

Plan Assets



Plan Liabilities

Leverage

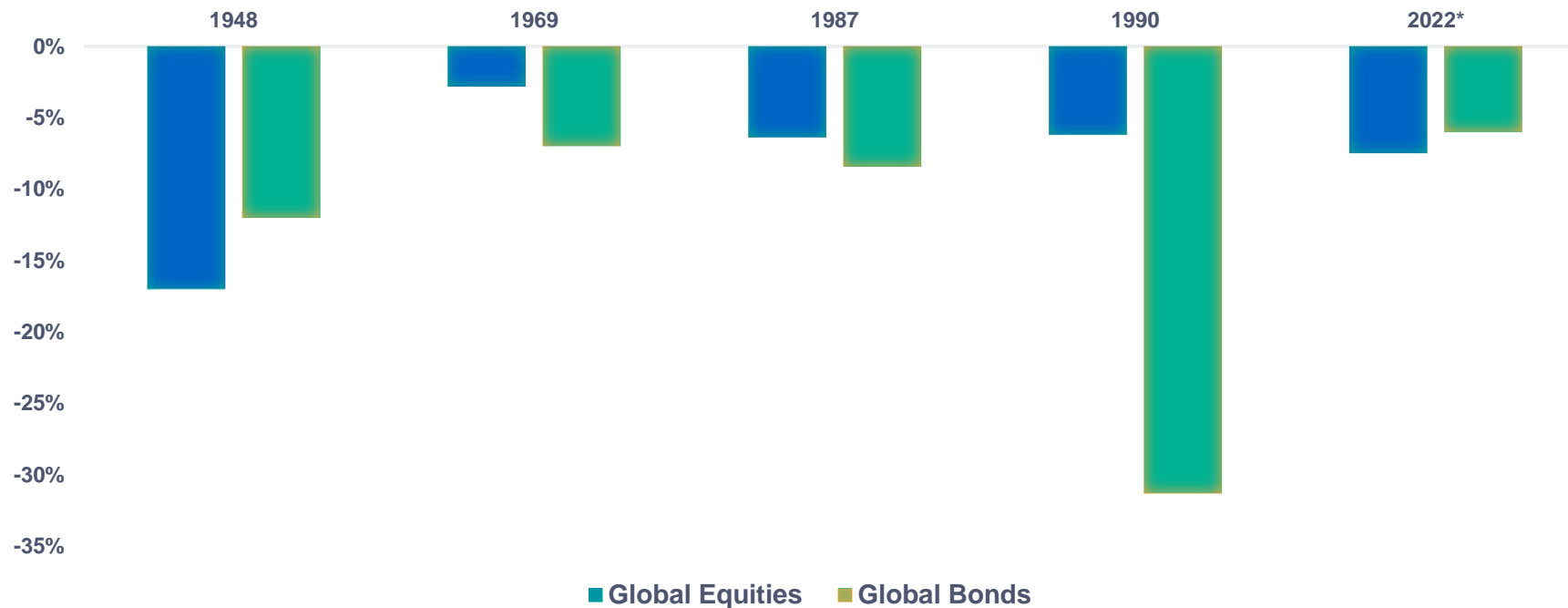
Margin

Margin Calls

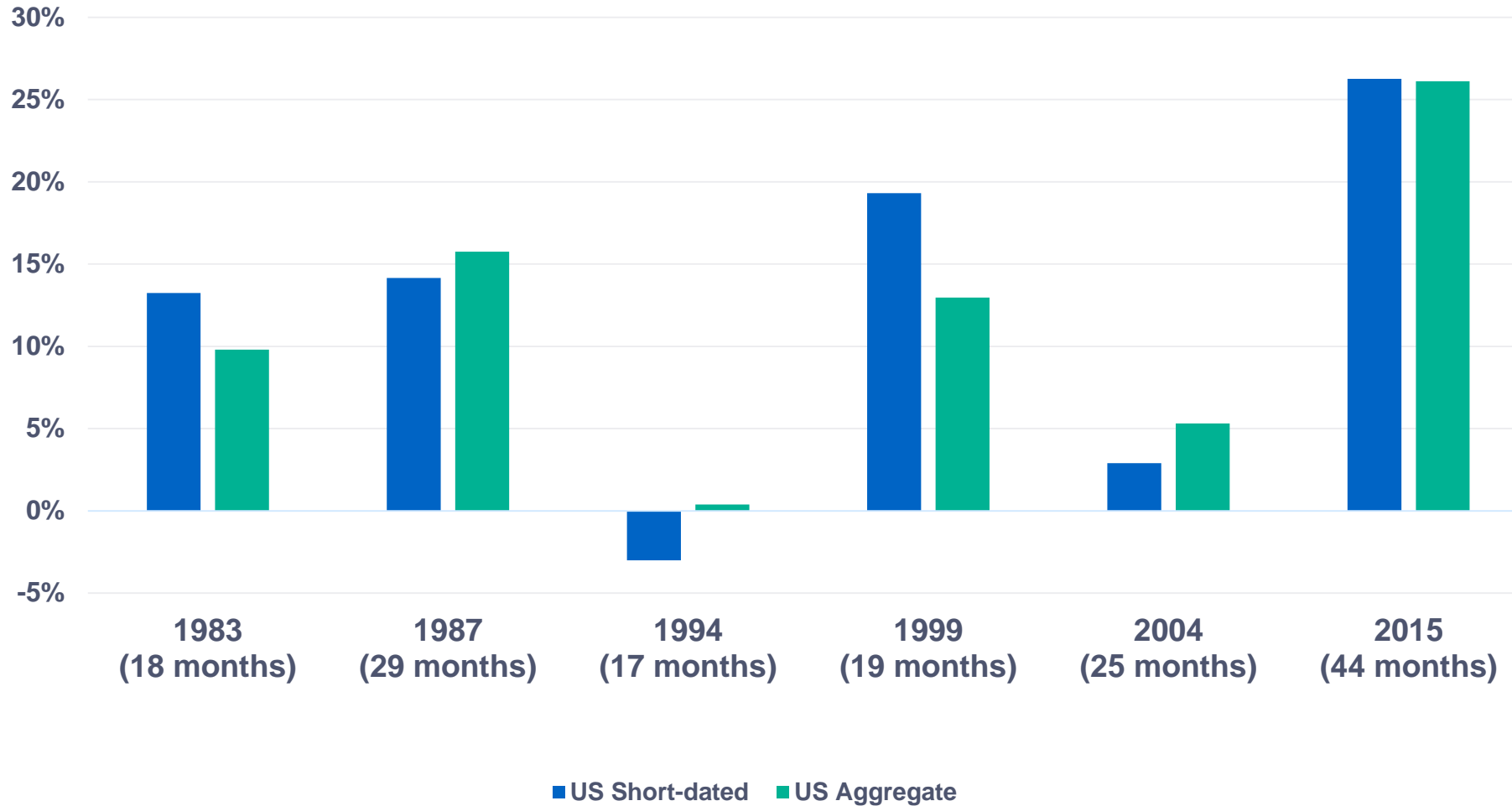


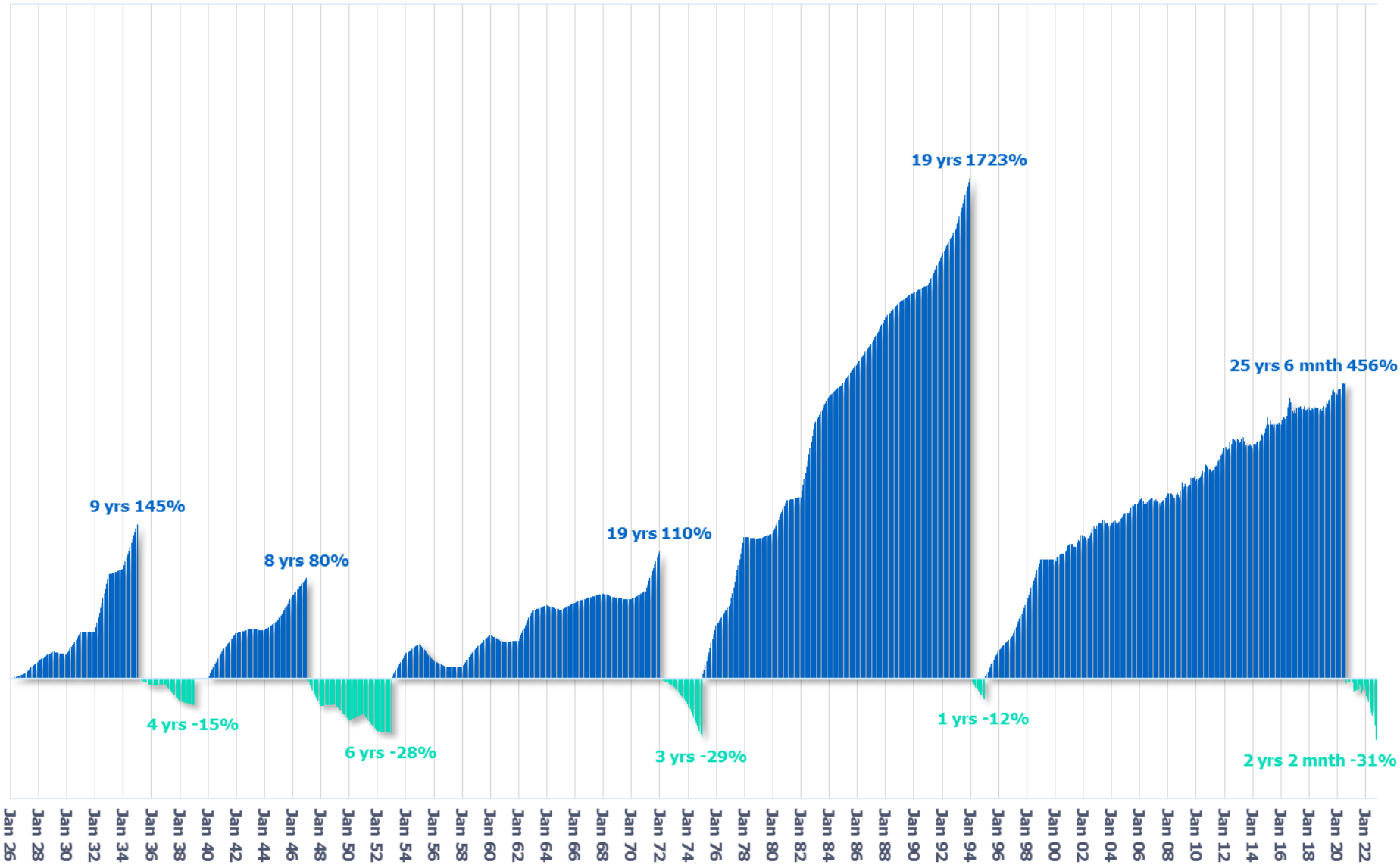
Are bonds still relevant in a multi-asset portfolio?

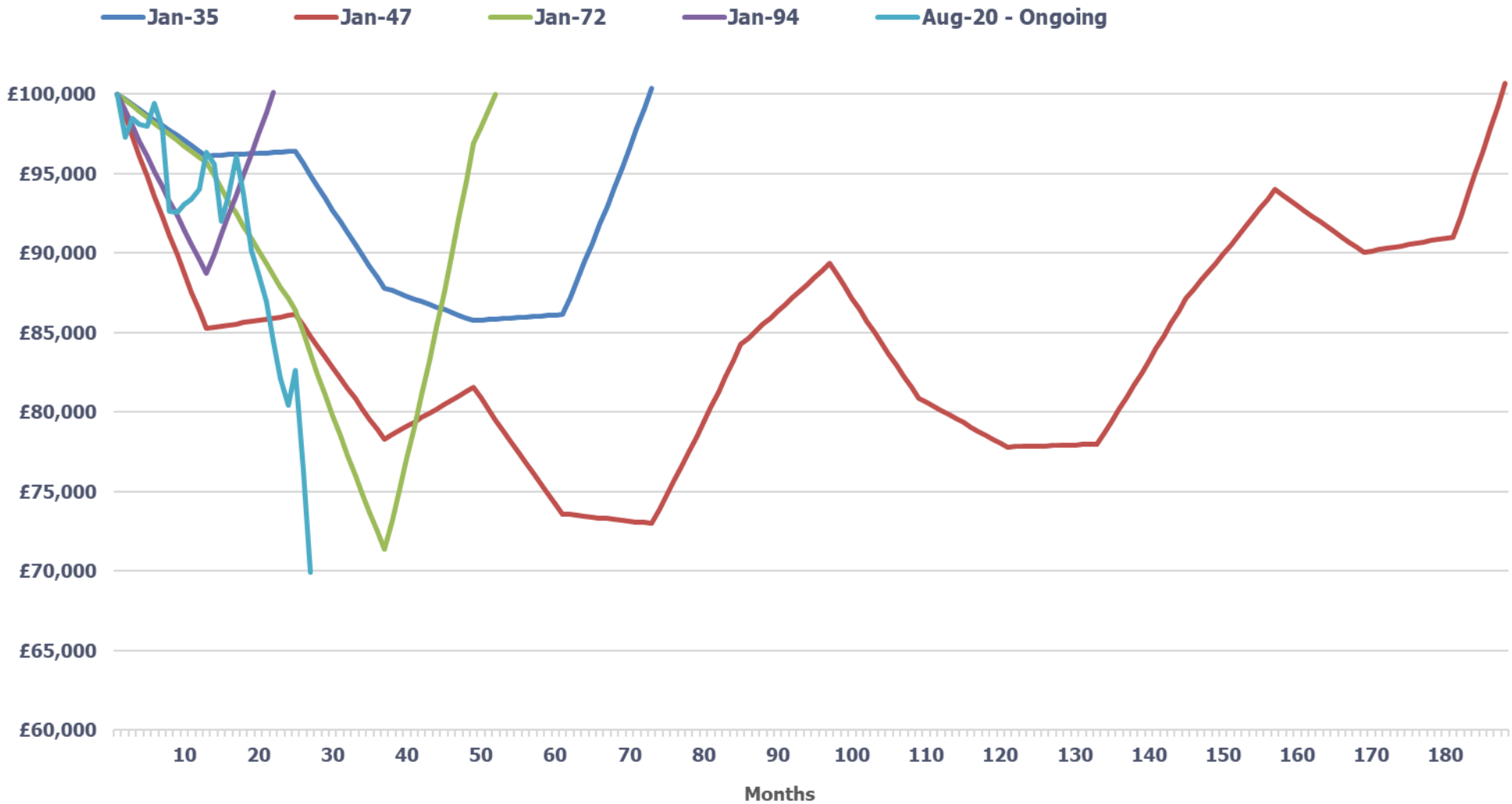
Simultaneous declines in bonds & equity markets since 1940



Short vs long duration over rising interest rate periods

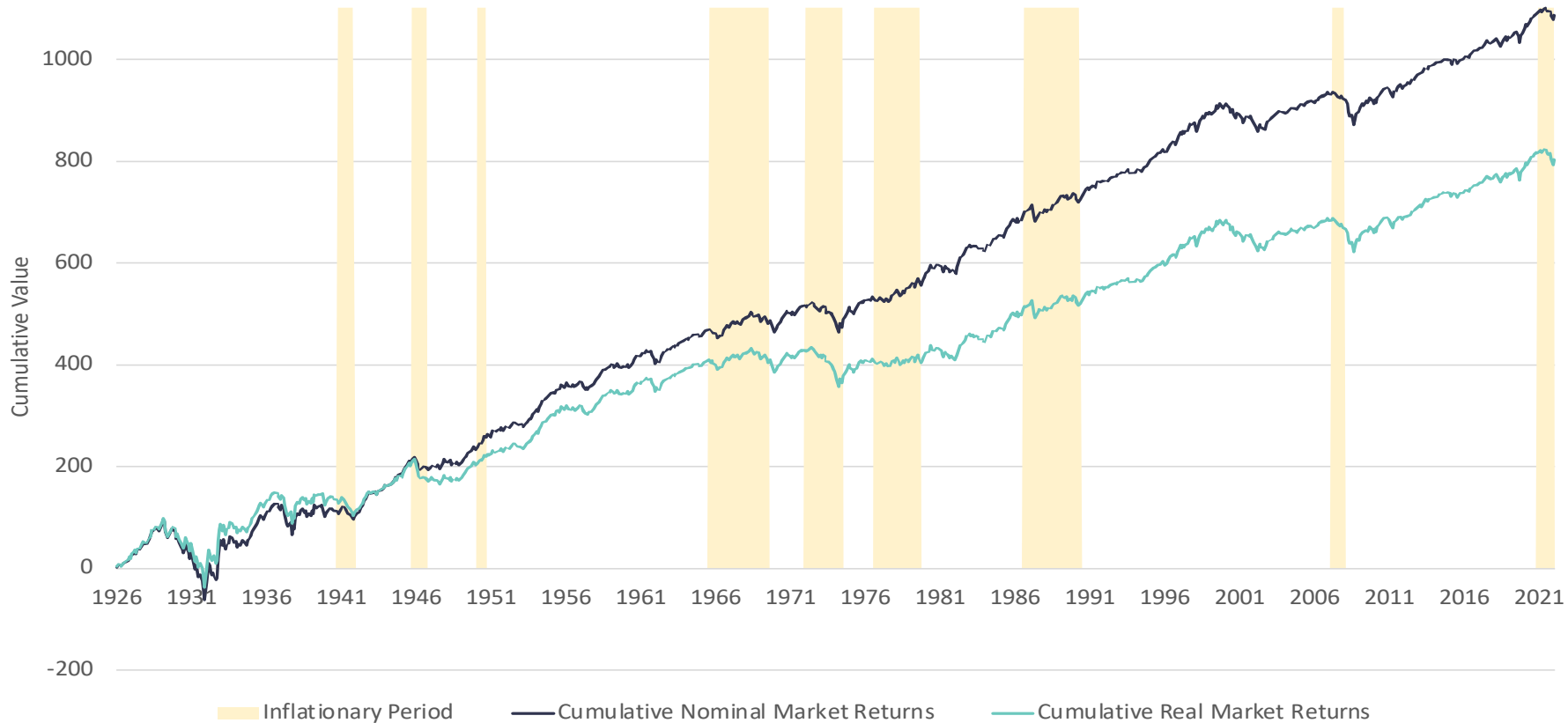






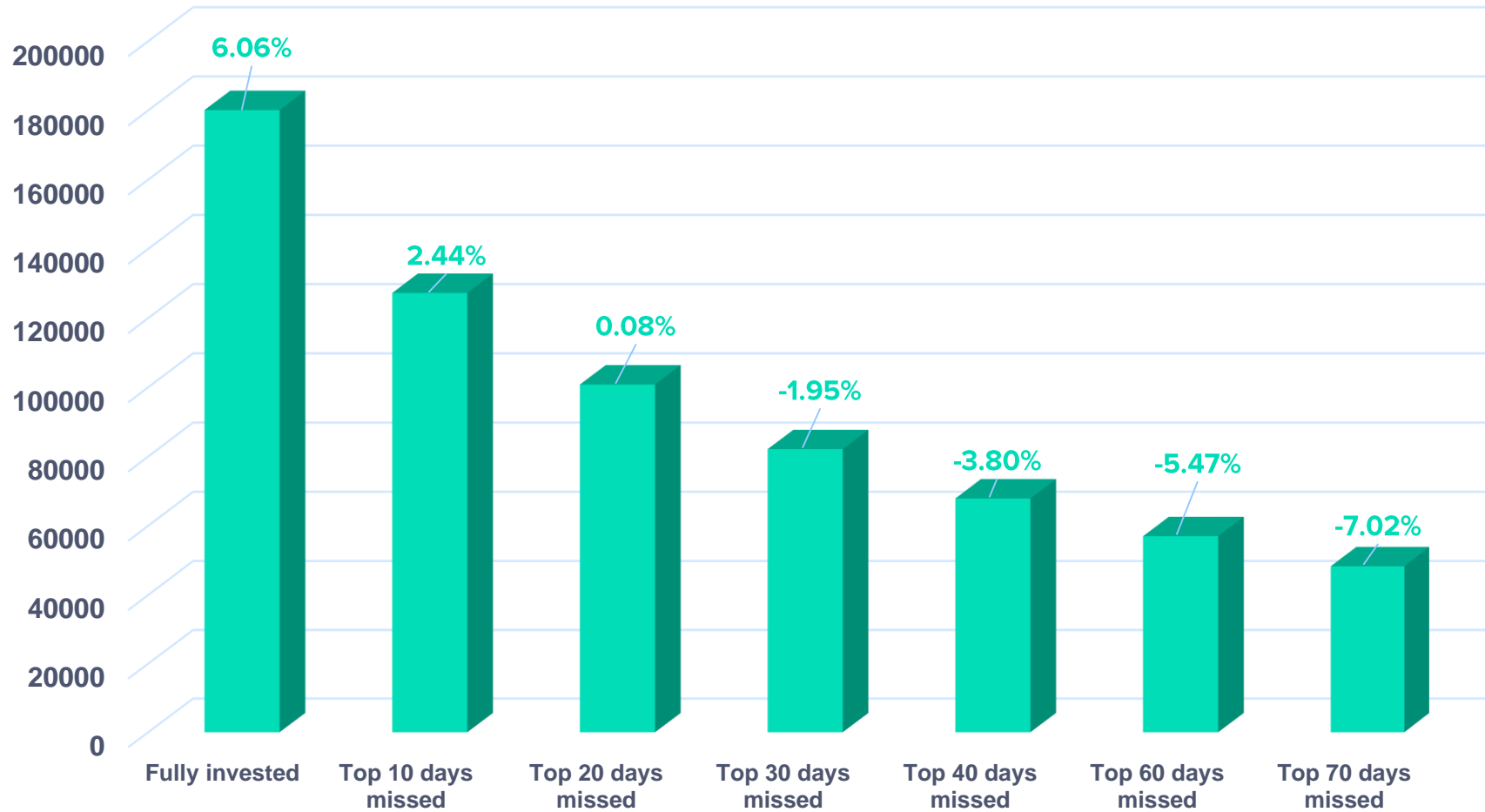
Long Run Equity Returns & Inflation

Cumulative USD Returns (July 1926 - July 2022)



Market Timing is Dangerous

10-year Annualised S&P 500 Returns



“We find that a sizable minority of managers pick stocks well enough to more than cover their costs. Moreover, the superior alphas of these managers persist”

Fama and French (2010), Kosowski, Timmermann, Wermers, White (2006)

- Fung, Hsieh, Naik, and Ramadorai (2008), Jagannathan, Malakhov, and Novikov (2010), Kosowski, Naik, and Teo (2007)

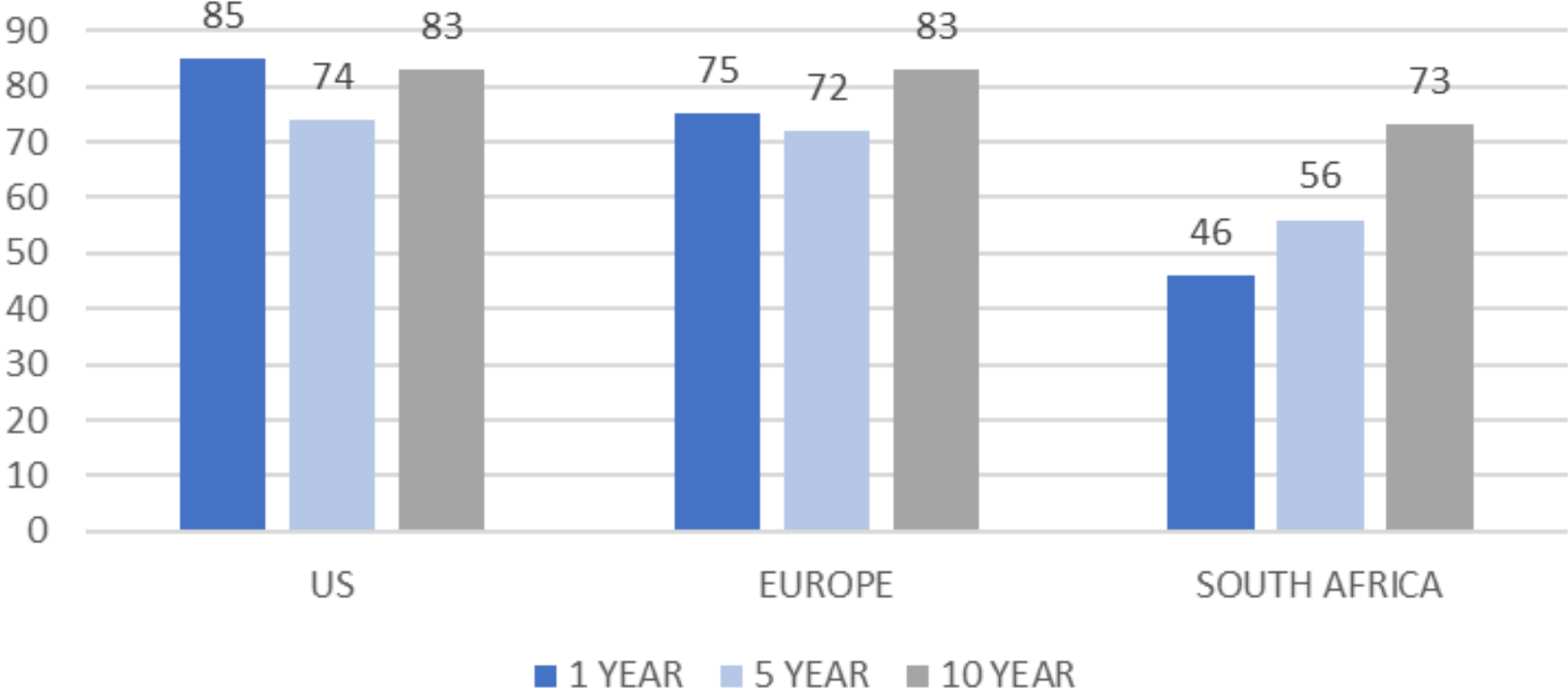
“Top hedge fund performance cannot be explained by luck”

“We document substantial persistence in LBO and VC fund performance”

Kaplan and Schoar (2005)



Active Equity Funds Underperforming Their Benchmark



Fight battles you can win

		Tracker Portfolios										
Discretionary Mgt	OCF (%)	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08
	MPS Fee (%)	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09
	Total	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
Advisory Mgt	OCF (%)	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14
	MPS Fee (%)	-	-	-	-	-	-	-	-	-	-	-
	Total	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14	0.14
New Cost		0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03	0.03

		Classic Portfolios										
Discretionary Mgt	OCF (%)	0.13	0.14	0.15	0.16	0.17	0.17	0.18	0.19	0.20	0.21	0.22
	MPS Fee (%)	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09
	Total	0.22	0.23	0.24	0.25	0.26	0.26	0.27	0.28	0.29	0.30	0.31
Advisory Mgt	OCF (%)	0.19	0.20	0.21	0.22	0.23	0.25	0.26	0.27	0.28	0.29	0.30
	MPS Fee (%)	-	-	-	-	-	-	-	-	-	-	-
	Total	0.19	0.20	0.21	0.22	0.23	0.25	0.26	0.27	0.28	0.29	0.30
New Cost		0.03	0.03	0.03	0.03	0.03	0.01	0.01	0.01	0.01	0.01	0.01



Rebalancing should be driven by market movements

£100,000 Invested in 50%/50%
Global Equity/ Bond Portfolio, 30
Yrs, 1% Fee

7bps

Median Scenario	Annual Return	Volatility	Drawdown	Cumulative Return	Nominal Balance (£k)
Quarterly	7.46%	12.34%	-21.69%	223.73%	£716.8
Annual	7.56%	12.37%	-20.57%	226.87%	£737.7
5% Band	7.51%	12.34%	-21.83%	225.43%	£728.0
10% Band	7.63%	12.45%	-22.69%	228.98%	£749.4



Assessment of Fund Managers

1 Fund Expense

Given the importance of cost as a predictor of performance, minimise cost where possible.

2 Transparency

Select funds with transparent charging structures and exclude funds with opaque structures from the selection process.

3 Index-Replication Method

As a rule, we invest in funds that physically replicate, as far as possible, the index being tracked.

4 Platform Availability

It's important that we are able to trade the fund in a cost-effective and efficient way and therefore we ensure that the fund is widely available on main adviser platforms.

5 Fund Track Record

We examine the track record of the fund, with respect to lifespan, tracking error and performance

6 Fund Size

With greater assets under management comes an increase in economies of scale, efficiencies and greater liquidity even in the event of a sell-off. Thus, we aim towards funds with a fund size of greater than £100m

7 Investor Protection

This step details the practical tasks involved in ensuring that investor protection is in place

8 Securities Lending

Once we have shortlisted funds that meet our criteria, we carry out further due-diligence on the shortlisted providers to explore possible counter-party risks through securities lending. We exclude funds if we are unable to satisfy ourselves of the stock lending policy of the fund provider.



Key Takeaways

1

Fiscal and Monetary interaction is a fine art to balance



2

Simultaneous declines in Bonds & Equity Markets are rare



3

Efficient portfolio management is more important than ever!



4

Market declines are a feature, not a bug!



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