

Global Investment Management ~ Outsourced CIO

April 2021

Market Outlook & Analysis



Agenda

- 1 — Overview : Performance
- 2 — Asset Class Returns
- 3 — Market Outlook & Analysis
- 4 — Current Positioning



— 1 — Portfolio Performance

as of 31st March 2021 US\$

	1M	3M	6M	YTD
Income	0.6%	0.5%	6.4%	0.5%
Balanced	1.0%	2.3%	10.5%	2.3%
Growth	1.0%	2.4%	9.7%	2.4%
S&P500	4.4%	6.2%	19.1%	6.2%
Global Aggregate	-0.1%	-2.6%	-1.5%	-2.6%
AOP Global Infrastructure (GLIS)	7.2%	7.9%	19.3%	7.9%
Benchmark*	6.7%	4.1%	12.5%	4.1%

*50% MSCI World Core Infrastructure, 50% MSCI World Infrastructure



— 2 — YTD Asset Class Returns

as of 31st March 2021

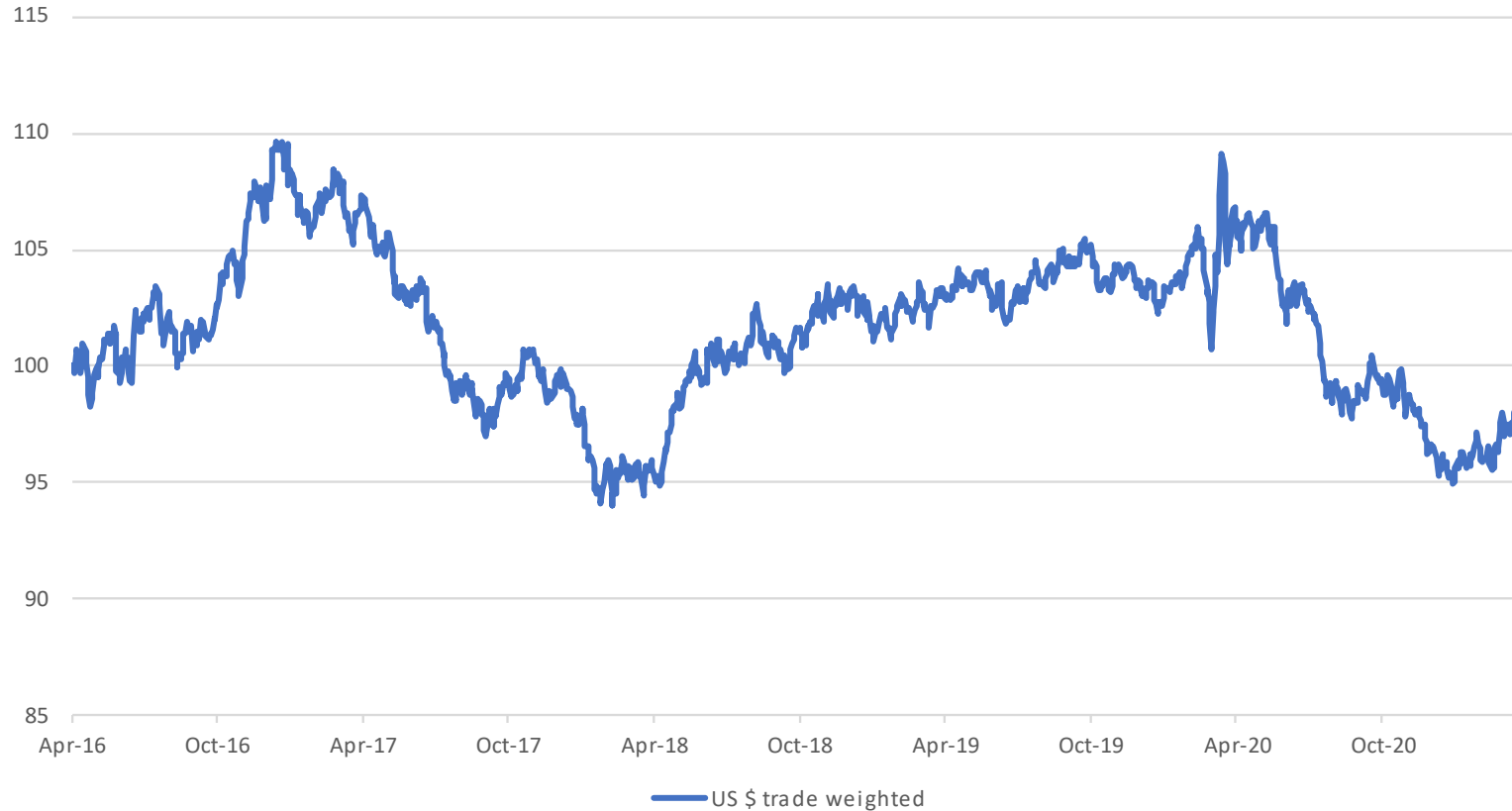
Asset class	March	Q1	Asset class	March	Q1
Global Developed Equities (\$ TR)	2.6%	1.5%	Global Aggregate (Hedged)	-0.1%	-2.6%
Global Emerging market equities (TR)	-1.5%	2.3%	US Investment Grade	-1.2%	-3.4%
US (S&P500 TR)	4.4%	6.2%	US High yield	0.1%	0.8%
NASDAQ	0.4%	2.8%	Emerging Market Debt	-1.0%	-4.7%
Europe ex UK (Eurostoxx)	7.9%	10.7%	Global Inflation linked	-0.1%	-3.4%
UK FTSE-ALLSH (GBP)	4.0%	5.2%	Gold	-2.5%	-10.0%
Japan (Nikkei 400 TR)	5.3%	8.8%			
China (MSCI, \$)	-6.3%	-0.4%	Oil (Brent)	-3.9%	27.7%
Asia ex Japan (MSCI TR \$)	-2.5%	2.6%	Dollar trade weighted	2.6%	3.7%

Source: Bloomberg

— 3 —

Market Outlook & Analysis

US\$ Rebounds



Source: Bloomberg

+5.2% vs the CHF (ytd)

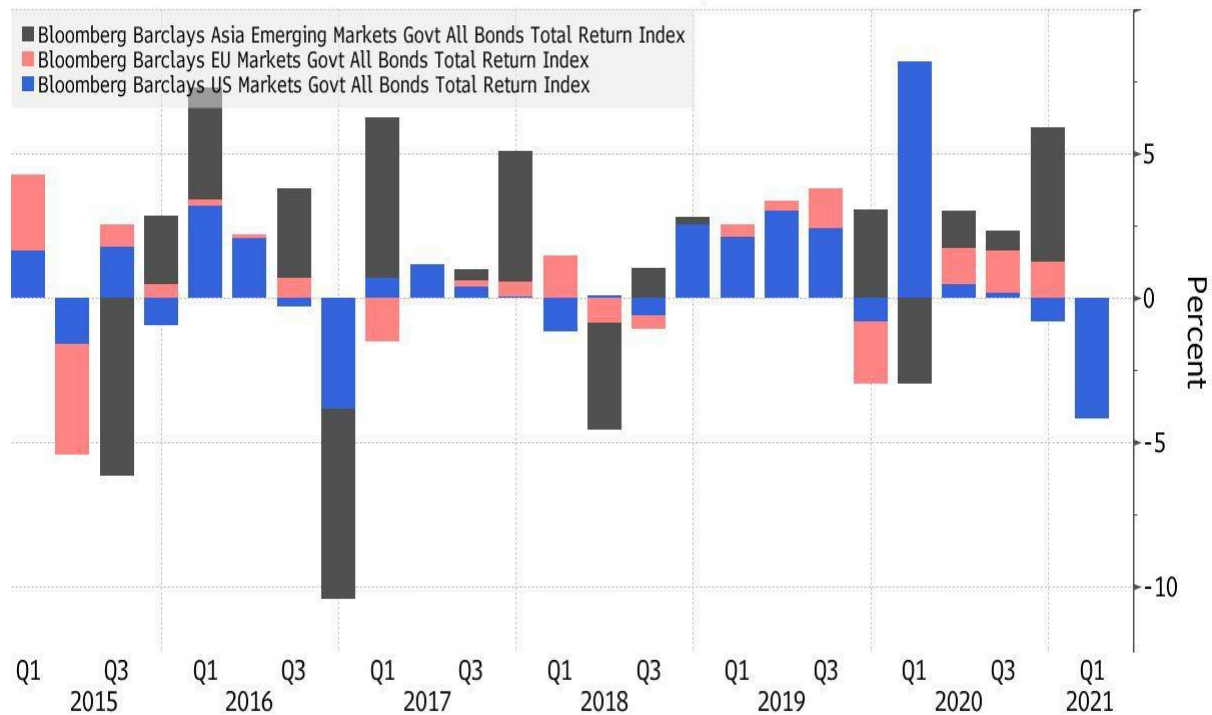


— 3 — Bond Yields Rise



Unequal Selloffs

U.S. debt suffers worst rout in decades while EU, Asia more resilient

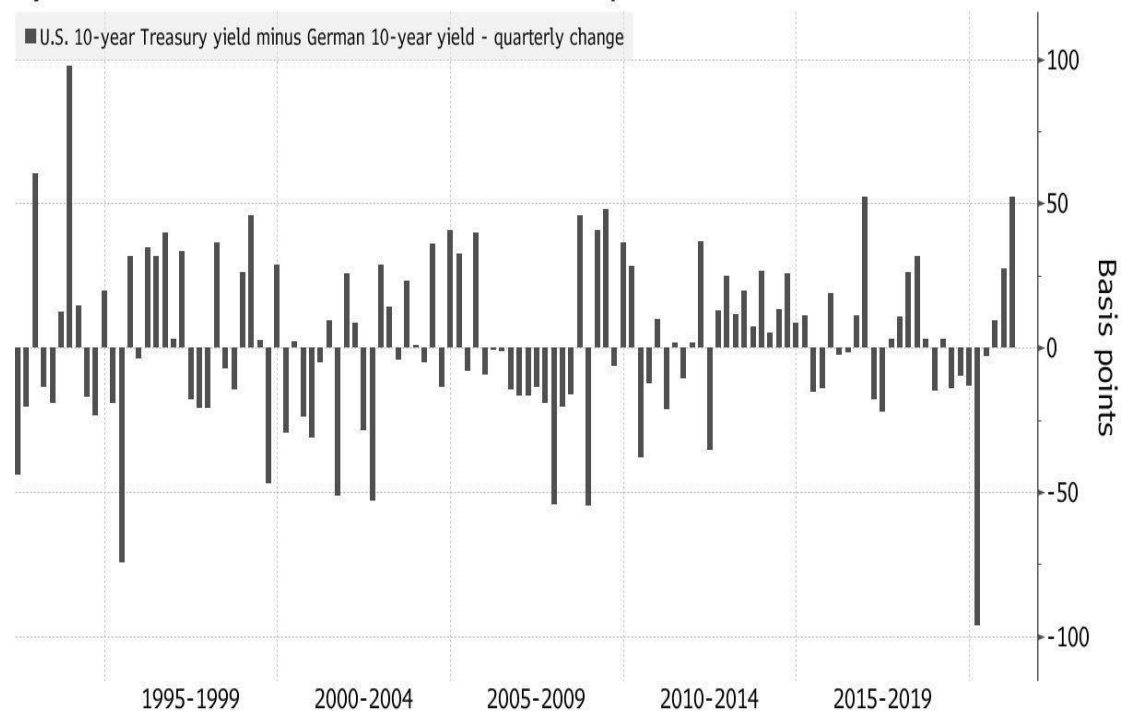


Source: Bloomberg

Source: Bloomberg

Rates Reprice

Spread between Treasuries and bunds widens, almost most since 1993



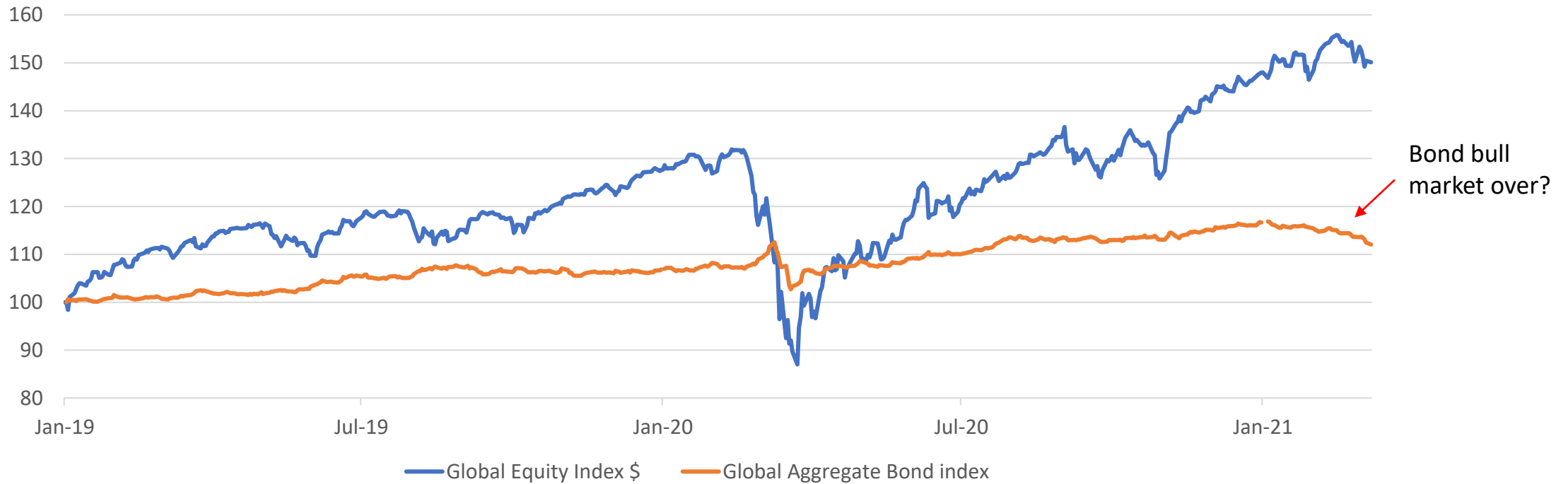
Source: Bloomberg

— 3 —

Equities vs Bonds



Rebased to 2019 =100



Source: Bloomberg

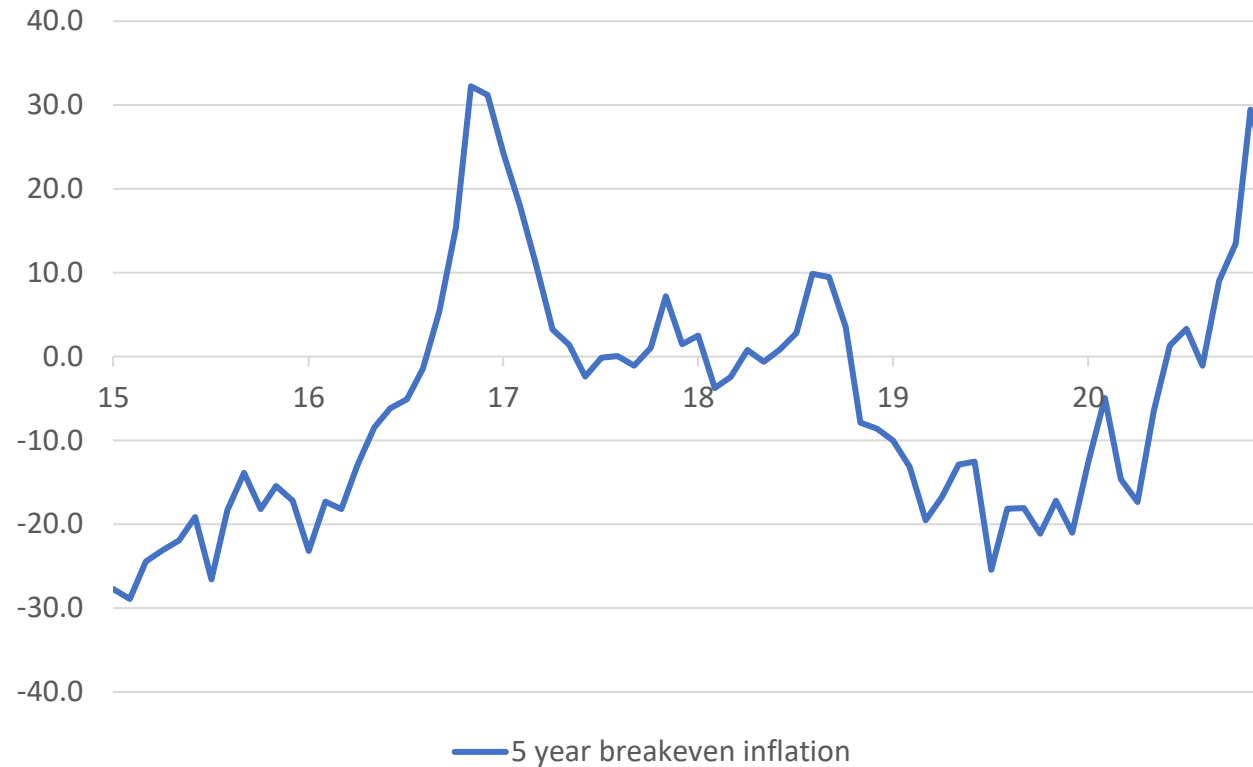


— 3 — The key questions

- **Inflation – is the genie is out of the bottle?**
- **Commodity super cycle?**
- **Other Inflation hedges?**



— 3 — Inflation surprise index close to highs

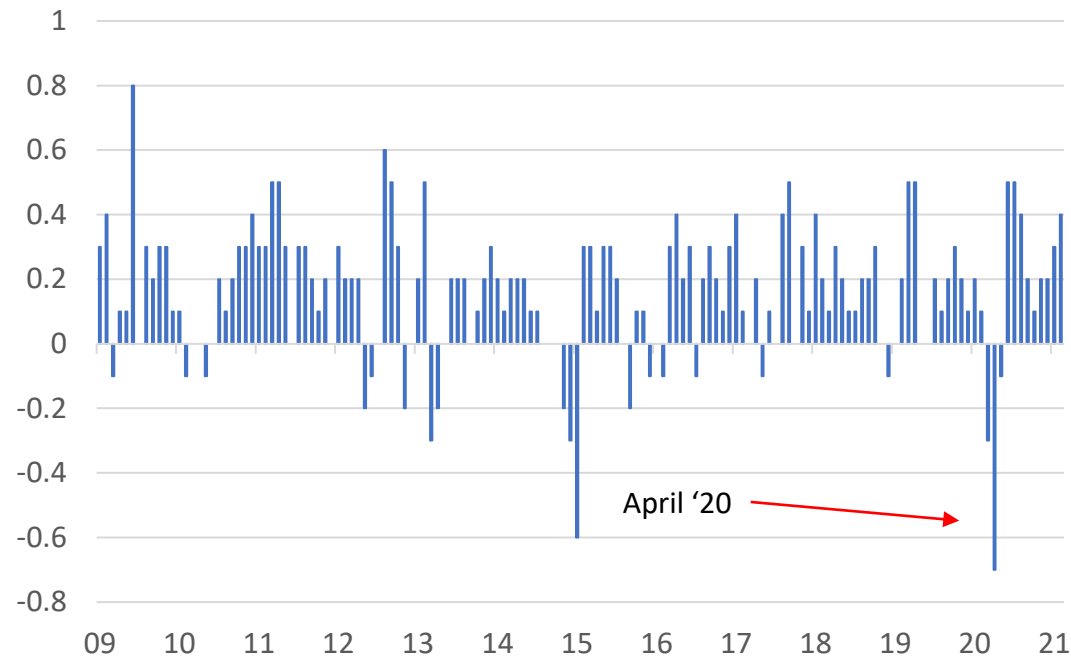


17 Mar 2021 — Fitch now **forecasts US** GDP growth at 6.2% in **2021** (revised up from 4.5%), China at 8.4% (from 8.0%) and the eurozone at 4.7% (unchanged)

— 3 — US Inflation will be a 'shock'



US month-on-month inflation (%)



Source: Bloomberg

- **80% of US CPI components showing inflation** in February.
- ISM **prices paid** component the **highest since 2008** for both manufacturing and services

— 3 — US Inflation will be a 'shock'



Food price inflation

Global population growth
Build of Strategic reserves
30% of global pig herd lost

Metals prices

Copper inventories 15 year low
Copper demand growth 10% pa?
Copper supply growth 2.3%

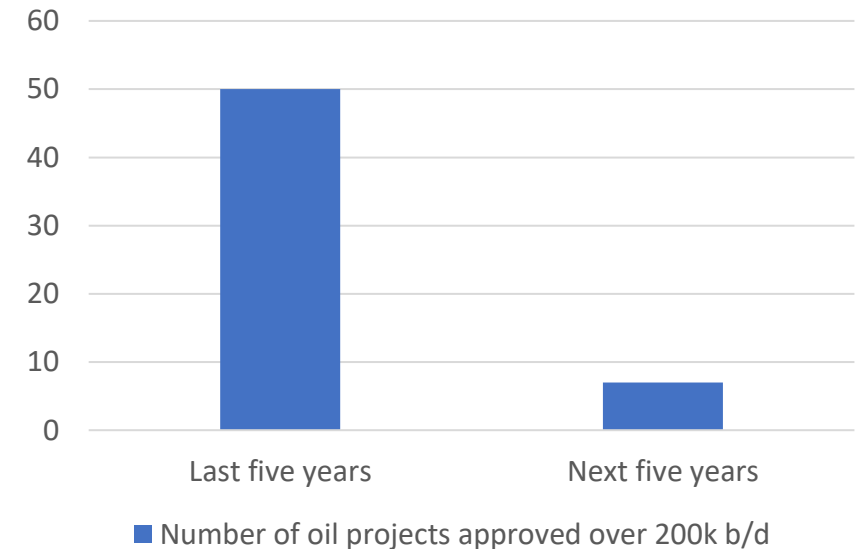
EV needs copper

US electricity supply needs to double

US house price inflation?

Lumber prices +50%
Shortage of land
Shortage of labour

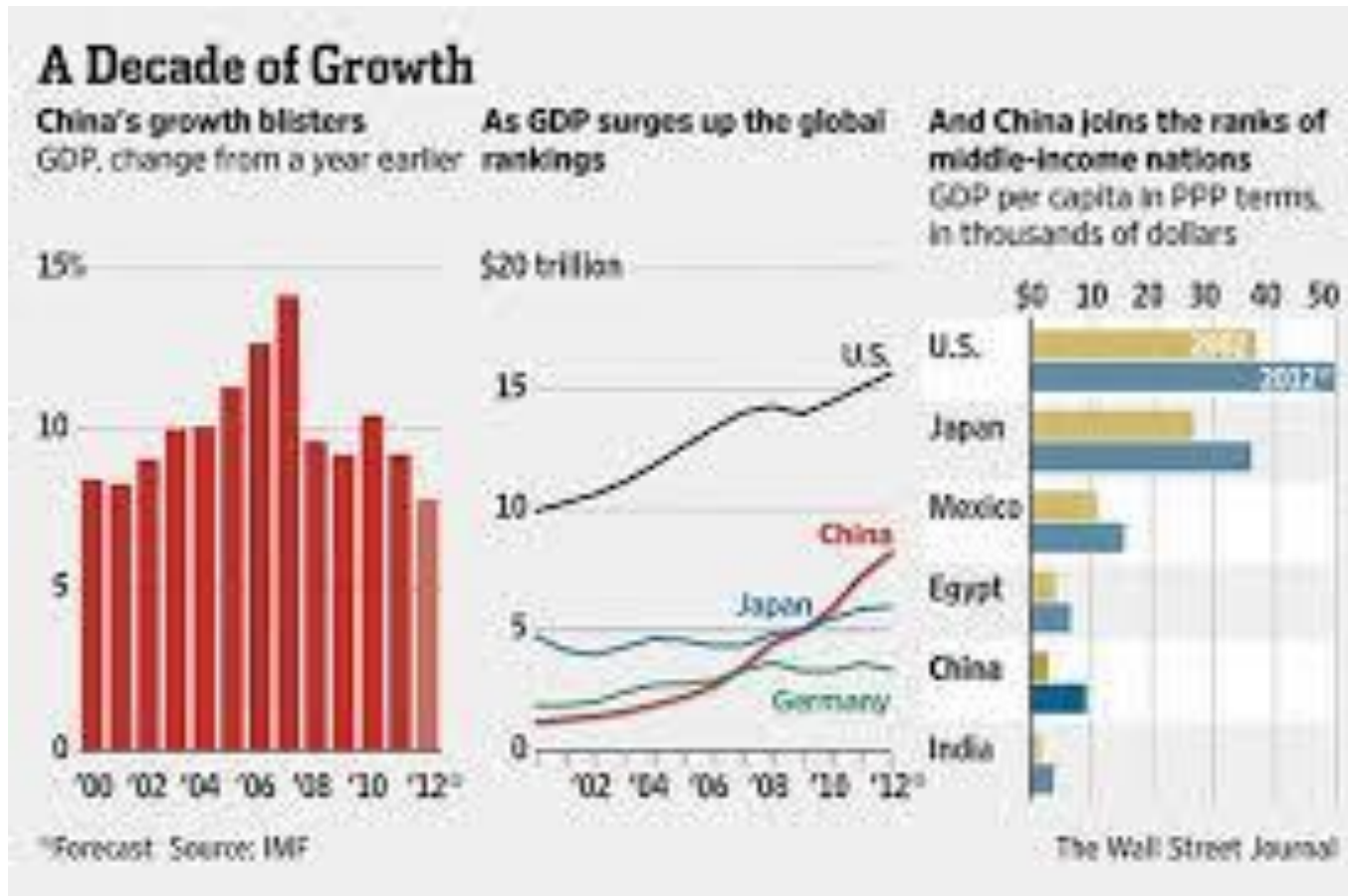
Oil price inflation?



84% of energy demand still comes from fossil fuels

Source: Bloomberg

— 3 — Commodity ‘Super Cycle’ recycles?



Remember 2000 and beyond

China spent around \$17 trillion on industrialisation (\$22 trillion in today's terms)

Copper price rose 480% in a decade

— 3 — “Everything’s Gone Green” New Order1981



China to spend \$13-\$16 trillion

US - Biden’s \$2.5 trillion spending plan



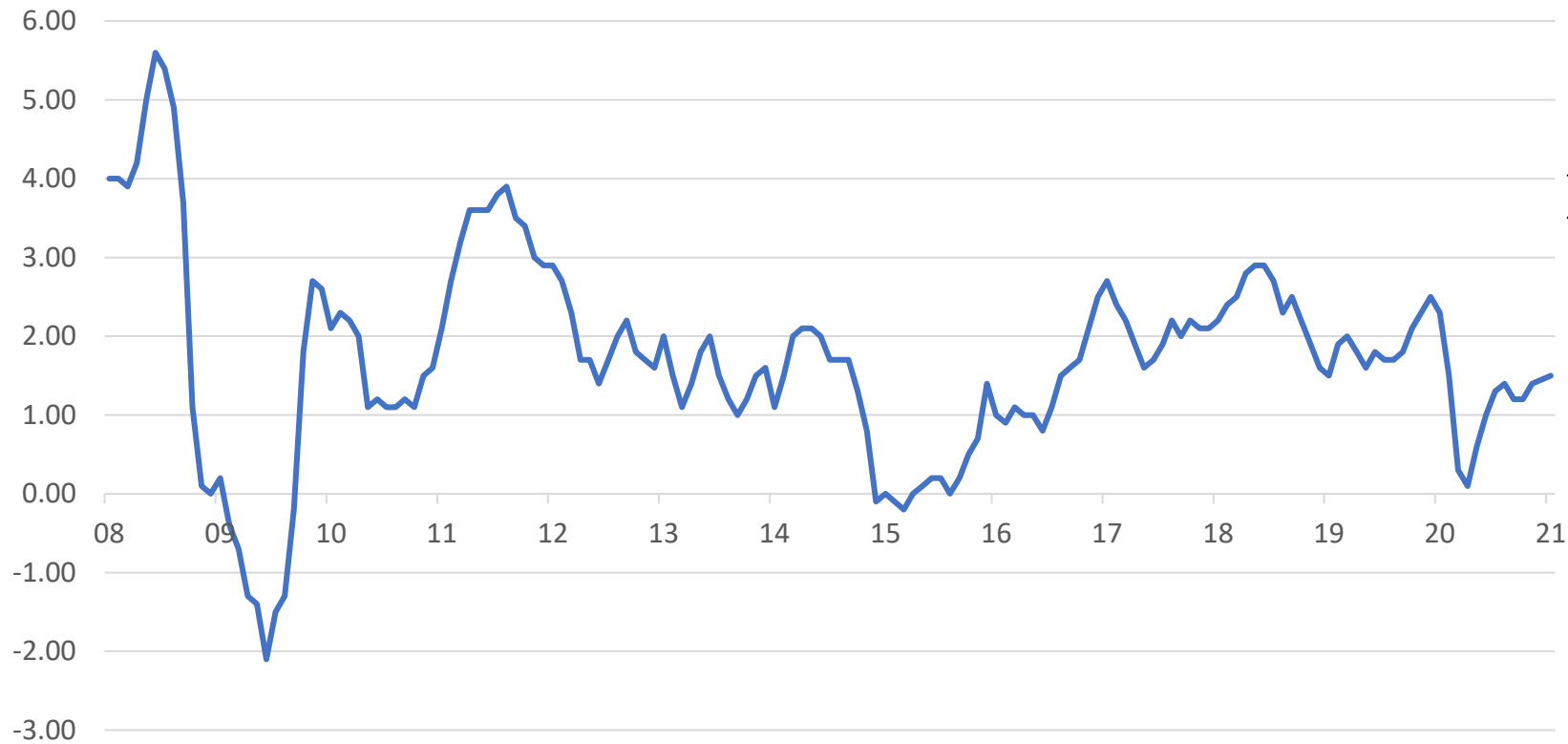
Europe’s \$572 bn green budget

Global \$30 trillion*

Source: Bloomberg



— 3 — US Inflation will be a 'shock'



Potential level of future inflation... forecasts have increased

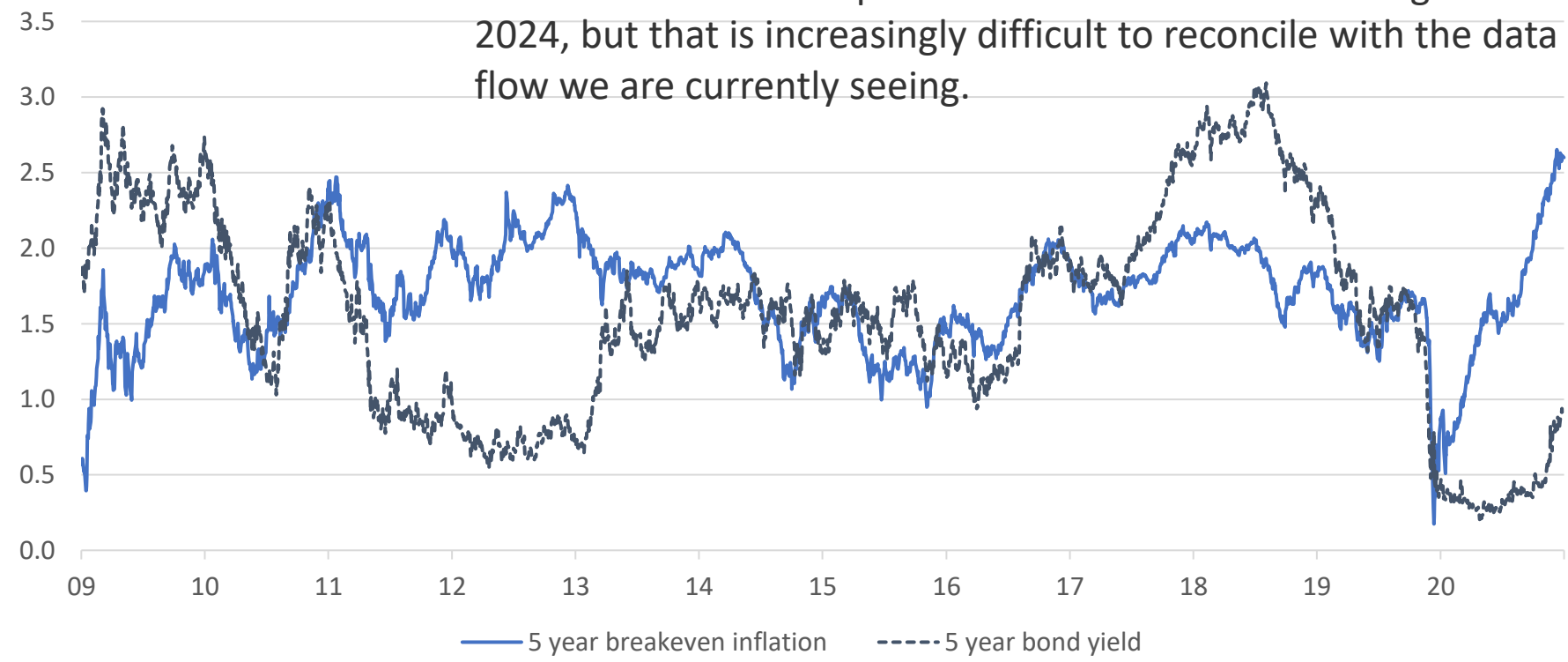


Source: Bloomberg



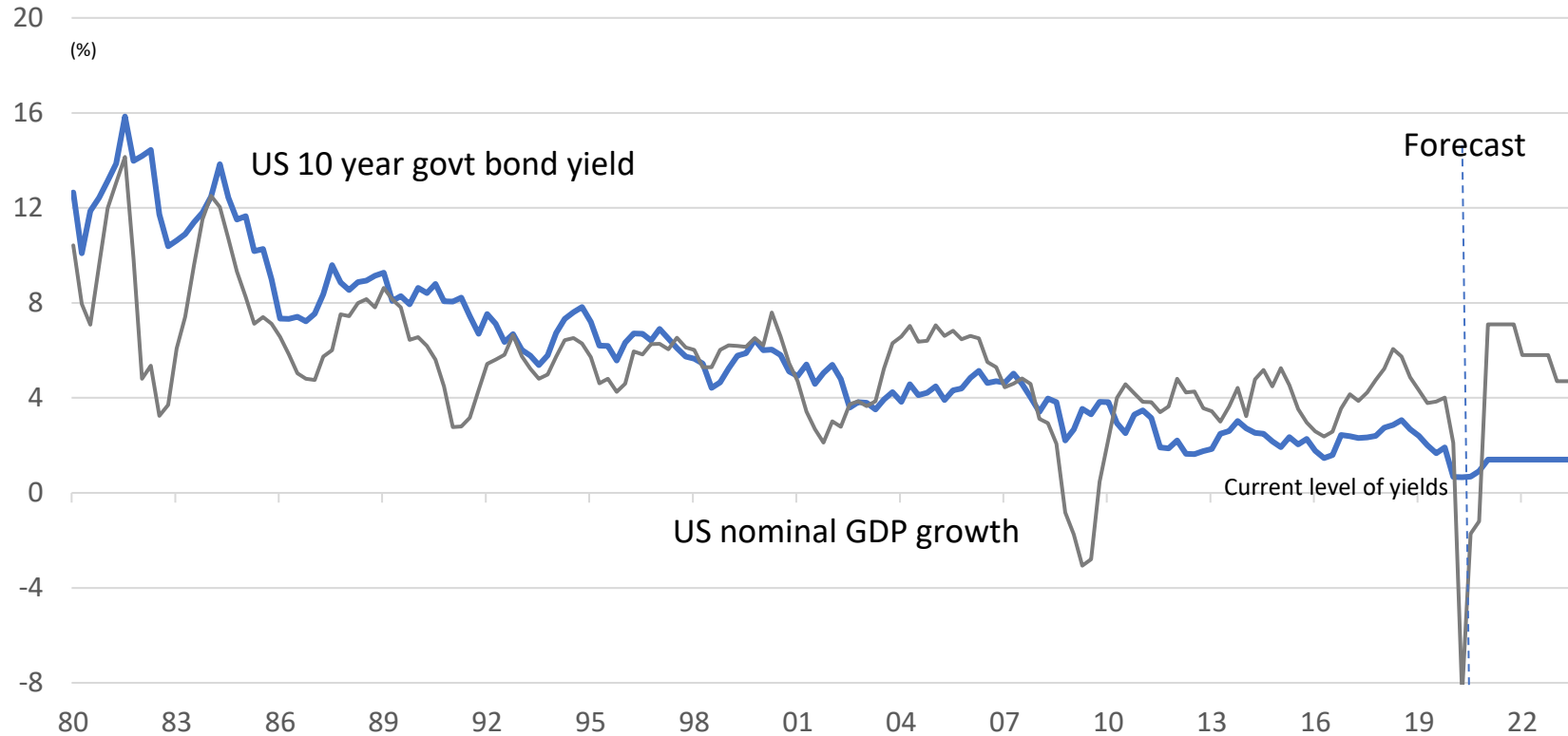
— 3 — Implied Inflation & Nominal Yields

For now the Fed's dot plot has the first rate hike coming in 2024, but that is increasingly difficult to reconcile with the data flow we are currently seeing.



Source: Bloomberg

— 3 — US Inflation will be a 'shock' based on this disconnect



Growth forecast implies a US 10-year bond yield of 5-7%

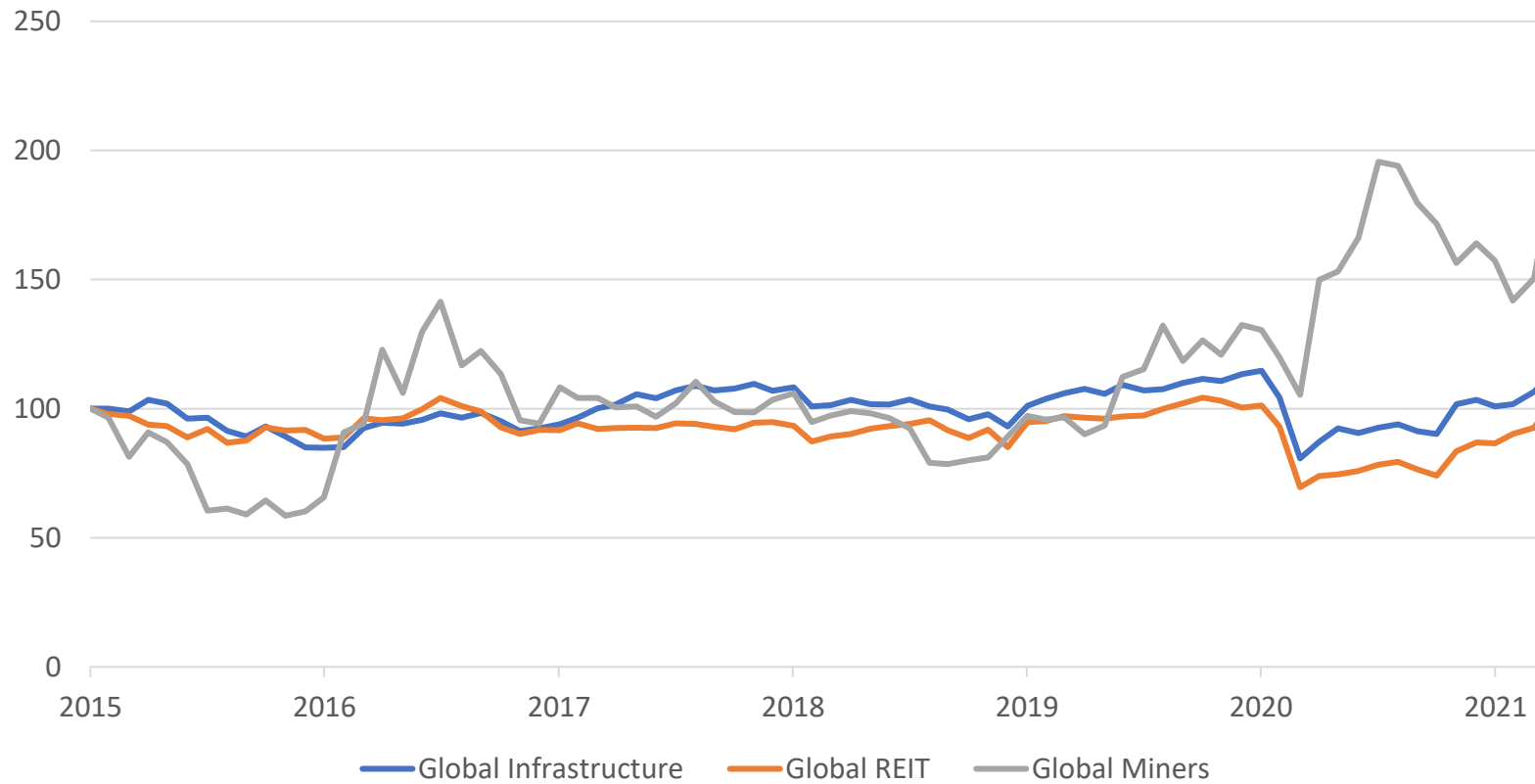
Source: Bloomberg & Delft estimates



— 3 — Coping with higher bonds yields

- Duration risk in bonds
- There is less obvious credit risk given estimates of strong growth
- Equities for yield without the duration risk

— 3 — Equity Market Sectors for Inflation

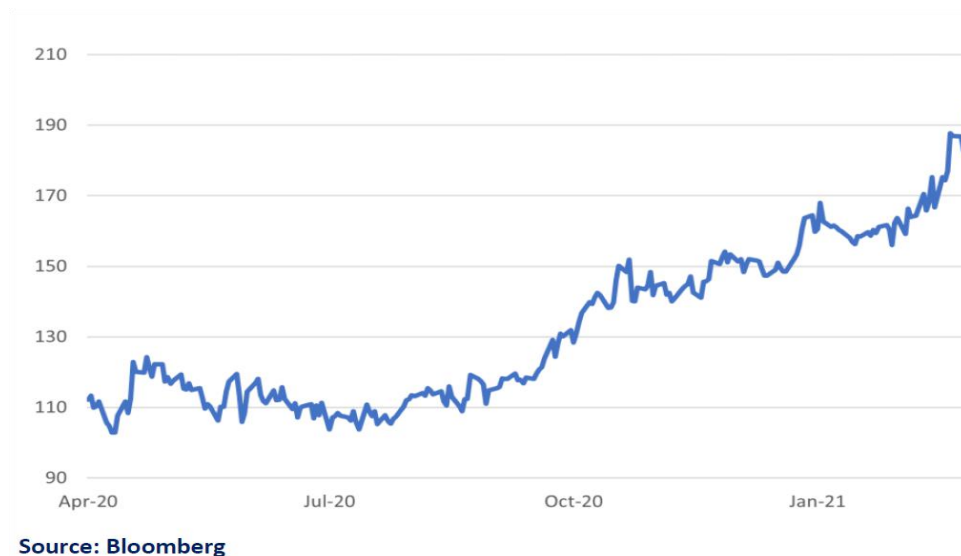


Also energy and food manufacturing and retailing

Source: Bloomberg

Bond strategy

- **Short duration – 10 year yields to 1.5% now preparing for 2.0%**
- **Swing back to absolute return funds given the greater opportunity set**
- **Maintaining exposure to emerging markets but watching for a spike in the US 10 year that gets exaggerated. Still on watch – Latam has been squeezed hard**
- **US spread widening helps fund deficits**
- **USA vs Germany 10 Year**



— 4 — Model Portfolios ~ Recent Trades

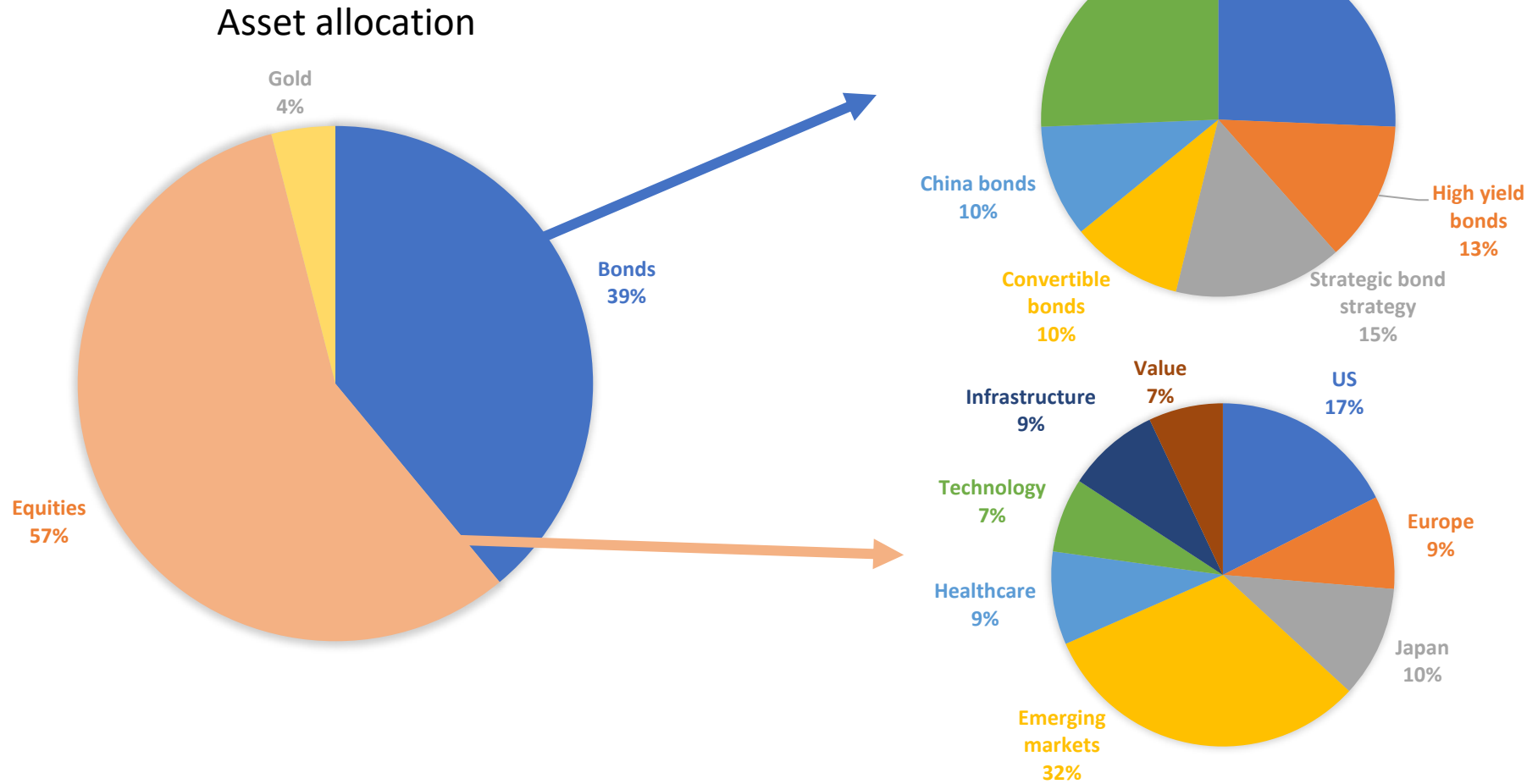


November – sold long duration bonds and trimmed tech exposure, bought global value

December – sold half of convertible position and bought EMD , bought ASEAN equity and sold half of healthcare

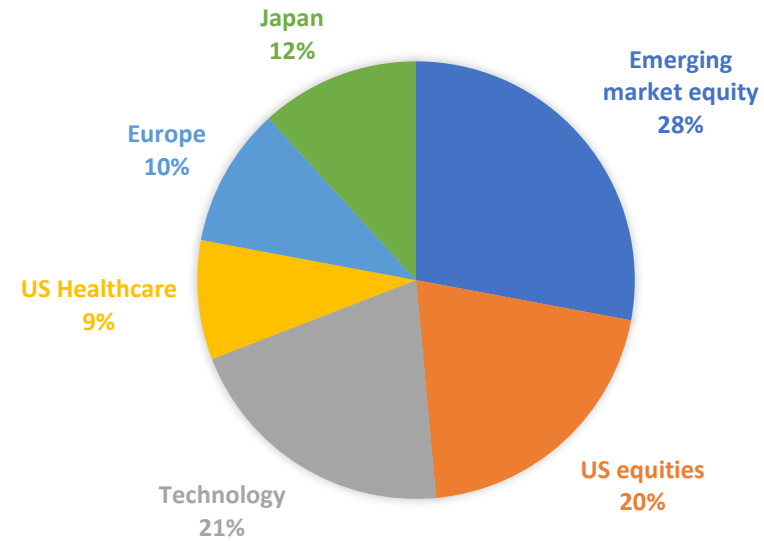
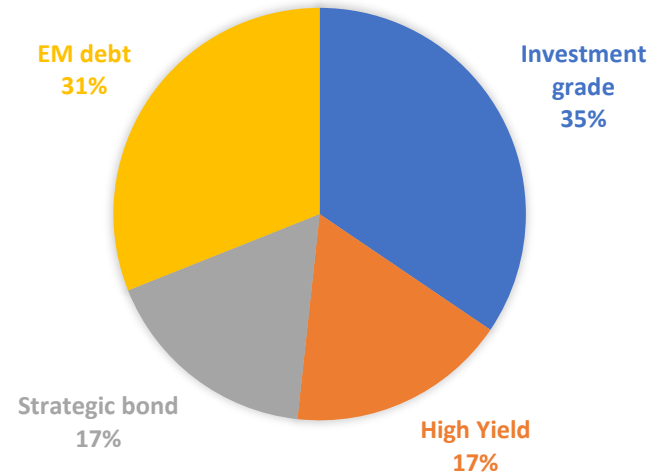
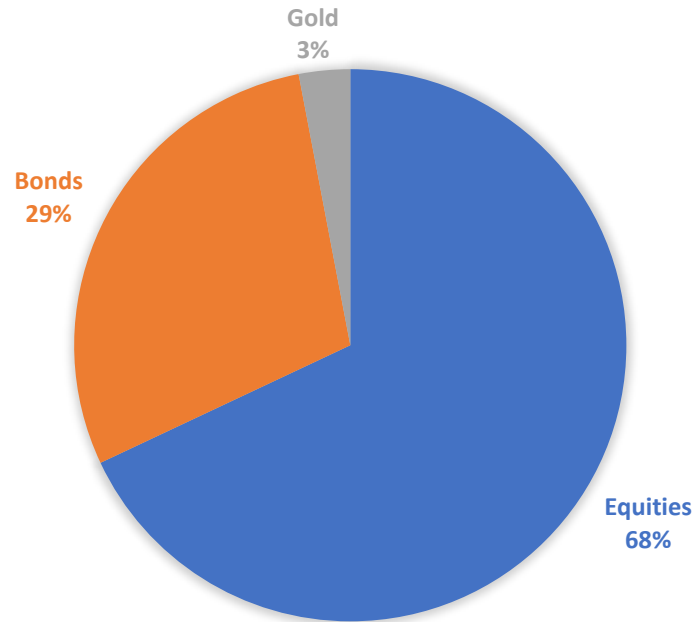
Q1 – sold EMD local position, trimmed China and Europe and bought global value and US

— 4 — Position Update ~ Balanced Portfolio

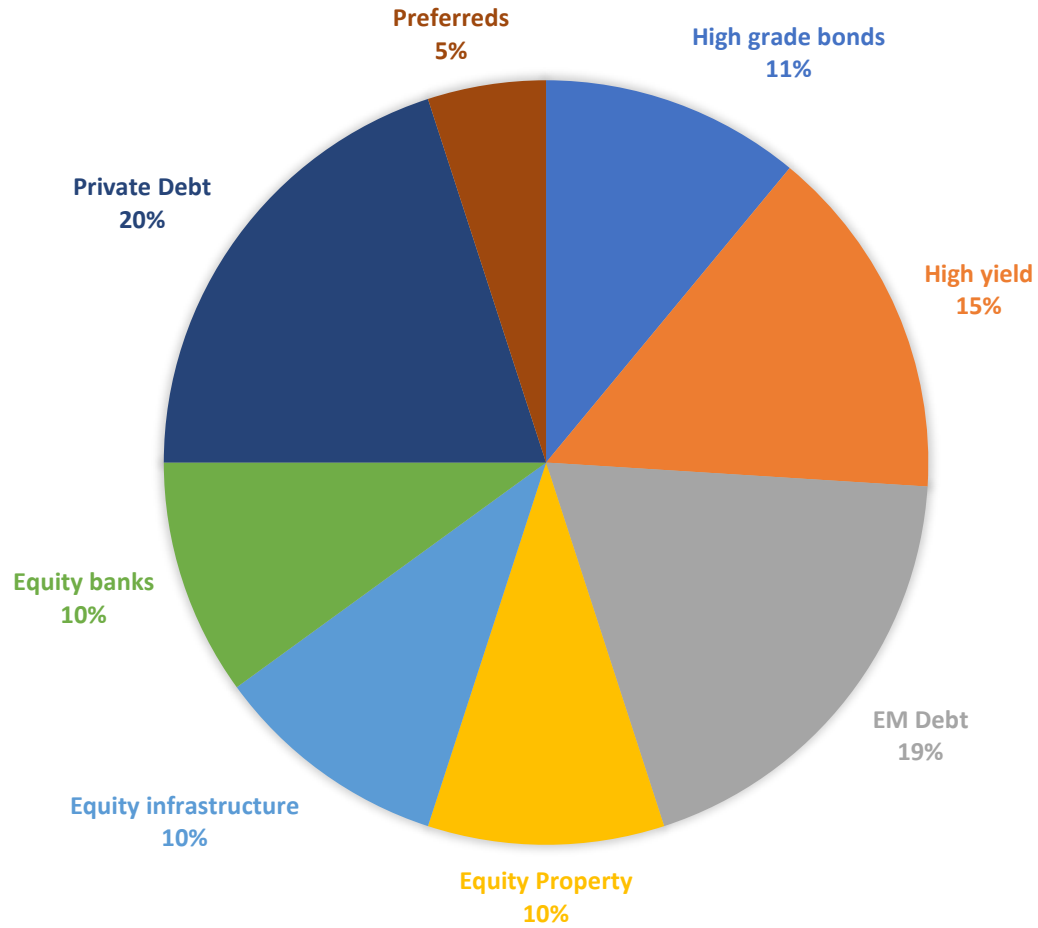


— 4 — Position Update ~ Capital Growth

Asset Allocation



— 4 — Position Update ~ Income Portfolio



Strategy Parameters

Strategy	Income	Balanced	Growth
Currency	USD/AUD	USD/AUD	USD/AUD
Net Return Objective*	4 – 6% p.a.	6 -8% p.a.	8 -10% p.a.
Minimum Investment Amount	100,000	100,000	100,000
Management Fee	- Subject	to AUM	--
Performance Fee	N/A	N/A	N/A
Volatility	5.7%	6.8%	7.2%
Target Sharpe Ratio	1%	1%	1.2%
<u>Asset Allocation</u>			
Equities	50%	57%	68%
Bonds	30%	39%	29%
Private Debt	20%	N/A	N/A
Gold	N/A	4%	3%



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