Marlborough International

August 2019

The value of multi-asset portfolios in an uncertain world

Escalating US-China trade tensions, Brexit uncertainty and concerns about a global economic slowdown have all served to underline the value of diversified investment portfolios.

Marlborough offers a range of risk-targeted multi-asset portfolios providing diversified exposure to a range of global asset classes. These portfolios are tailored to clients' risk profiles and designed to provide optimum returns within specified risk parameters.

Here we discuss the underlying funds held in our multi-asset portfolios, how they have performed so far this year and the investment outlook for international equities, UK equities, global bonds and high yield bonds.

International equities

International equity exposure in our multi-asset portfolios is principally through three funds: Marlborough US Multi-Cap Income, Marlborough European Multi-Cap and Marlborough Far East Growth.

All three funds have benefited from weaker sterling. The US fund is up almost 34% so far in 2019, with around 20% of the return being via currency. European Multi-Cap is up over 14%, with a quarter of that being delivered from the euro/sterling relationship. Given that the principal impact of a no-deal Brexit might be to weaken sterling further, this might be expected to benefit the funds significantly.

However, it is important not to forget that there are other issues at play aside from Brexit. The US/China trade conflict, and weak economic data in Europe, may yet drown out Brexit effects. Making a precipitous move out of UK funds in order to avoid market downside and capture currency gains may find clients moving from frying pan to fire.

UK equities

Marlborough's UK equity funds are oriented - though not exclusively - towards mid-cap and smaller companies. The revenues of a greater proportion of these are not export-led so one might imagine they would be less sensitive to Brexit per se. However, if no deal is negotiated before the 31st October and the large-cap 'tide' goes out, it may temporarily carry smaller companies with it. Looked at through a longer-term lens, any price falls might offer a rare buying opportunity as a result. That said, companies that depend on imported components will be finding prices rising and will have to take the hit or pass those rises on to customers.

Some smaller companies may find Brexit impacts on staffing and recruitment. For example, technology companies often have a significant number of EU nationals in their team. Companies are reporting that they have seen significant falls in job applications from EU nationals since the 2016 referendum result. This will be mitigated at some point by clarity on the rules around EU immigration for skilled workers, by increased immigration from non-EU countries and by up-skilling UK citizens. Meanwhile, healthcare-related investments are anticipating that Brexit will result in more money being spent by the NHS.

Businesses that move physical goods across borders have stepped up contingency planning, which in many cases means finding other ways of getting their goods to overseas markets, for example offshore inspections or quality control centres or final assembly outside the UK. These are temporary measures for now but could be made permanent if need be. For those businesses delivering services it is not quite business as usual, but there is less thought about tomorrow and more about the long term. At this stage the long-term impact of Brexit is unclear, but for those markets outside the EU trading conditions are unchanged so there is less disruption.

An antidote to Brexit is to seek out companies that do not move goods across borders and that do a high proportion of their business outside the EU. Generally, this is where many of the growth businesses focus and, in reality, trading within Europe for these businesses also comes with less regulatory hassle. It has always been difficult for small businesses to sell to other European countries. Even pre-Brexit, the US, Asia and Middle East are more important markets.

Global and high yield bonds

Marlborough's key funds are not restricted to equity exposure. The Marlborough Global Bond and Marlborough High Yield Fixed Interest funds provide

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exposure to global fixed income securities that are often sought out as 'safe havens' when equity markets are weakening, and a degree of exposure to these funds may provide a home for some capital seeking to lower equity risk. However, allocating capital between equities and bonds requires some calculation to ensure risk parameters are likely to continue to match the client's risk tolerance.

In the last few years, while global equity has won out against UK equity, in the bond arena investors typically plumped for UK gilts instead of global bonds, which were associated with currency risk and price volatility. However, weaker sterling and continued downward pressure on global interest rates, along with their attraction as a 'safe harbour', mean global bonds now appear more attractive and may offer investors comfort during near-term uncertainty. Indeed, the Marlborough Global Bond fund is up over 11% in 2019, and Marlborough High Yield Fixed Interest has achieved a satisfying 7% return.

With the global economy slowing and rates being cut globally, global bond funds are back in vogue. In the long term, with a beta of .33 relative to gilts, global bonds are a useful volatility dampener as a constituent of a well-diversified multi-asset portfolio.

Multi-asset portfolios

Satisfying the issues of clients with conflicting views on the future, and differing risk profiles and required outcomes, is clearly a complicated process. Where pragmatic decisions are required against a backdrop of uncertainty, then perhaps the ideal home for clients who are risk-sensitive is Marlborough's risk-targeted range of multi-asset portfolios. Comprising UK equity on a multi-cap basis, along with global equity and bond funds, clients who hold funds in the Guernsey and Dublin risk-targeted ranges need be less concerned with either Brexit or the US-China trade war. The purpose of these funds is risk management through diversification, according to clients' risk tolerance as measured by Marlborough's risk profiling tool. Bond holdings and diversified exposure across large, medium and smaller company equities should dampen the impact of macroeconomic events at a global and local level.

Marlborough International's Adventurous, Balanced, Cautious and Defensive portfolios have track records of more than three years and have consistently delivered higher returns versus their sectors, with volatility within the parameters promised. Information on these funds is available by clicking on the relevant fact sheet link.

Investing for the long term

History is replete with incidents that were deemed to 'change the world as we know it'. Two World wars, the assassination of President John F Kennedy, the Vietnam war, the Oil Crisis, the end of the gold standard, 9/11 and even the Great Financial Crisis were, in the long run, unable to stop the inexorable growth of economies.

At a very basic level, companies make things that people want to buy, or they go out of business. Great companies grow despite politics, war and social upheaval. Coca Cola has paid a dividend every year since the small company went public in 1919, and it has increased that dividend every year for the past 55 years. Stanley Black & Decker has paid investors a dividend for over 140 years, with 50 consecutive increases. Procter & Gamble, famous for brands like Tide, Bounty, Olay, Gillette, Crest, Vicks, Oral-B, Head & Shoulders etc, has paid a dividend for 130 years, and increased it every year for 62 years. All of these giants began their lives as small companies. Today, Apple, Amazon and others have rewarded investors over the long term despite seeing significant share price falls at various stages along the way.

Investment is not about short-term reactions to uncertainty. Over decades, temporary setbacks, however significant they seem at the time, are just that - temporary. Investing is, almost by definition, a long-term process. We believe that a well-diversified multi-asset portfolio, matched to a client's risk profile, should deliver the goods in the long-term whatever the economic backdrop.

As Warren Buffet reminds us, "Someone is sitting in the shade today, because someone planted a tree a long time ago".

Graham Bentley
12 August 2019

Risk Warnings

The following is a summary only of some key items in the Prospectus. Investors in Protected Cell Company (PCC) must have the financial expertise and willingness to accept the risks inherent in this investment. **Capital is at risk. These are the author's views at the time of writing and may be subject to change. These opinions should not be construed as investment advice. The value and income from investments can go down as well as up and are not guaranteed. An investor may get back significantly less than they invest.** Past performance is not a reliable indicator of current or future performance and should not be the sole factor considered when selecting funds. Our fund of funds range invests for the long-term and may not be appropriate for investors who plan to take money out within five years. The funds will be exposed to stock markets. Stock market prices can move irrationally and be affected unpredictably by diverse factors, including political and economic events. The funds have significant exposure to bonds, the prices of which will be impacted by factors including; changes in interest rates, inflation expectations and perceived credit quality. When interest rates rise, bond values generally fall. This risk is generally greater for longer term bonds and for bonds with higher credit quality. The funds invest in other currencies. Changes in exchange rates will therefore affect the value of your investment. The funds may invest a large part of its assets in other funds for which investment decisions are made independently of the fund. If these investment managers perform poorly, the value of your investment is likely to be adversely affected. Investment in other funds may also lead to duplication of fees and commissions. Shares may not be redeemed otherwise than on any Dealing Day. There will not be any secondary market in the shares of the Company.

Regulatory Information

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