momentum

harmony portfolios

# HARMONY PORTFOLIOS

## MULTI-MANAGER, DIVERSIFIED SOLUTIONS

## Q4 ENDED 31 DECEMBER 2020

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## The Harmony Portfolio range

The Harmony Portfolios are a long established range of globally diversified, multi-asset funds designed specifically to provide a cornerstone investment. The Harmony range consists of ten portfolios, each risk profiled and with a specific geographical and currency focus, housed in a Luxembourg UCITS structure with daily pricing and daily liquidity.

The full range includes:

- Momentum Harmony US Dollar Balanced
- Momentum Harmony US Dollar Growth
- Momentum Harmony Sterling Balanced
- Momentum Harmony Sterling Growth
- Momentum Harmony Europe Diversified
- Momentum Harmony Australian Dollar Growth
- Momentum Harmony Asian Balanced
- Momentum Harmony Asian Growth
- Momentum Harmony Cautious Income
- Momentum Harmony Global Equity
- Momentum Harmony Global Index Enhanced Equity

As at the end of December 2020, assets under management across the Momentum Global Fund range totalled USD 2,560.4 million.

The Harmony Portfolios investment philosophy is built on three core capabilities:

- Asset allocation
- Investment selection
- Portfolio construction

The asset allocation process is disciplined, robust and valuation driven, and builds portfolios with true diversification across a wide range of non-correlated assets. 'Best of breed' fund solutions are then used to construct each portfolio. We recognise that no investment house has a monopoly of skill in all disciplines: having an unconstrained choice allows us to choose the most appropriate investment managers for any particular asset class. We are objective and independent in our approach, with no incentive to utilise a specific provider in the underlying composition of the portfolios.

The Harmony Portfolios aim to create the best combination of investments to provide optimal returns relative to each of the nine mandates' tolerance for risk.

## The Investment Manager

The Portfolios are managed in London by a team of experienced investment professionals at Momentum Global Investment Management (MGIM), which has been offering investment management and advisory services to institutional and retail investors since 1998. The fourteen strong multi-asset investment team have been responsible for the investment strategy and management of the Portfolios since their inception in 2004. Senior members of the investment team have been working together throughout most of this period.

Investors can be confident that their investments are being managed within a strictly regulated environment, and by a highly qualified and experienced team with significant resources across the globe. MGIM is wholly owned by Momentum Metropolitan Holdings Limited in South Africa, a listed company with a market capitalisation of $2bn and a strong capital position with total assets of $50bn. MGIM is authorised and regulated by the Financial Conduct Authority in the UK and is an authorised Financial Services Provider in South Africa in terms of the Financial Advisory and Intermediary Services Act 2002 (FAIS).

# Portfolio commentary

## Portfolio Performance

As the extraordinary year that was 2020 drew to a close, the last three months saw risk assets continue to move higher, which drove strong returns across the Harmony Portfolios range.  Markets were spurred on by optimism around the vaccine rollout, a last-minute Brexit trade deal and the US Presidential election.  The impact on risk assets was electric, stock markets soaring on the announcements, led by the pandemic's losers including energy, banks, leisure and travel, and with the best returns from those markets which are heavily weighted towards value stocks, which are set to benefit most from the improved prospects.

The MSCI World index returned 14% in USD terms over the quarter, led by Asia Pacific ex Japan with gains of 19%. The UK and US returned +11% and +12% respectively, with the latter breaking new all-time highs.  Emerging markets returned +20%, led by Emerging Latin America with +35%.  China underperformed over the quarter, gaining 11%, but remains one of the best performers this year, up 30%, having recovered successfully from the virus.

Global bonds saw mixed performance over the quarter: the 10-year US Treasury yield rose 23 basis points (bps) to 0.91%, while the 10-year German Bund yield fell by 5bps to -0.57%.  Inflation linked bonds performed well, with the 10-year US Breakeven ending the year at nearly 2%, close to the highest levels seen since early 2019.  Corporate bonds and emerging debt outperformed government bonds significantly, particularly convertible bonds and high yield bonds which delivered high single digit gains or more.

Within currencies, the US dollar continued to weaken in this risk-on environment and was the worst performing G10 currency over the quarter.  Sterling ended the quarter slightly stronger against the euro.  Commodity currencies, such as the Australian dollar, appreciated sharply alongside rising commodity prices and a better economic outlook.  Emerging markets currencies, in particular Latin American, also gained against the weaker US dollar.

All the multi-asset Harmony Portfolios posted good returns over the quarter, with the Asian Growth (+13.8%) and US Dollar Growth (+11.4%) Funds leading the way.  The lower risk Cautious and Balanced Funds within the range naturally delivered smaller gains but were still up between 7% to 9% in base currency terms.  Most of the Funds delivered a higher than normal level of equity upside participation, relative to their respective local equity indices, while also delivering strong outperformance versus the average of their peer groups.  The single asset class Global Equity and Global Equity Enhanced Index Funds returned +16.0% and +13.3% respectively in US dollar terms.

The largest contributors to performance over the quarter were in most cases our allocations to value orientated / more cyclical parts of equity markets, as well as to mid and smaller cap stocks.  Some of the value orientated strategies that made the largest contributions were: Contrarius Global (+46%), Schroder UK Recovery (+30%), Lyrical US Value (+29%) and Maple Brown Abbott Asia ex Japan (+24%).  Strategies with a significant exposure to smaller companies that drove performance included: Granahan US SMID (+37%), Chrysalis Investments (+30%) and Pacific Assets Trust (+27%).

Our UK real estate allocations also enjoyed very strong recoveries, with Ediston Property and Schroder REIT gaining 40% and 23% respectively, as their very wide discounts to NAV narrowed.

Most of our active asset allocation decisions also contributed to performance over the quarter, including: our allocations to credit, particularly convertible and emerging market bonds, our relatively low exposure to government bonds and within equities our overweight emerging markets position.

Our modest underweight allocation to overall equity markets and holdings in S&P 500 put options detracted from performance.  However, this positioning has intentionally been balanced with overweight allocations to global convertible bonds.  The equity market upside participation rates of convertible bond strategies naturally vary over time, but they were particularly high in 2020, with the returns of our two main fund holdings being +26% to +28%, significantly ahead of global equity markets.  Having increased our allocation to the asset class earlier in the year when valuations were in our opinion too low, it was a significant contributor to performance over the year.

Since markets began to recover in late March 2020, performance of the Funds has been very strong in absolute terms, relative to peer groups and relative to long term strategic asset allocation. Gains ranged from 25% to 52% for the diversified multi-asset Portfolios, up to 71% in the case of the Global Equity Fund. This recovered all or at least the vast majority of the pandemic losses from earlier in the year, resulting in the Funds ending the year with returns of between -2% to +1%, across the Sterling, Australian Dollar and Europe Funds, between +7% to +8% for the US dollar and Asian funds, and +10% for the Global Equity Fund. Over five years and since inception, most of the Funds are in line with or ahead of their target return objectives on a net of fees basis.

## Portfolio Changes

During November we made some modest adjustments to asset allocation across all the multi-asset Portfolios; overall increasing equity holdings and reducing corporate bonds, whilst keeping total risk broadly the same.
We switched between 2% to 4% out of corporate bonds, with half or more of that coming from convertible bonds, depending on the Portfolio. As mentioned in the previous section, our higher than normal allocations to convertible bonds were very well rewarded last year, but we felt the time was right to reallocate some of the position to other areas with slightly better return prospects.

Specifically, we invested the proceeds in the Maple Brown Abbott Global Listed Infrastructure strategy. Infrastructure stocks – which span the owners of toll roads, airports, pipelines, utilities and beyond – are typically regarded as being defensive, due to reasonably steady and predictable demand for their services, even during periods of economic contraction. That wasn't the case this year due to the impact of national lockdowns and travel restrictions; the sector has lagged broader global equity markets by over 10% while certain parts, notably the first three subsectors listed before, remain much more depressed despite a recent bounce. We believe the asset class could be due a period of catch-up over the next year or so, as earnings likely rebound and markets begin to rerate the sector once again to reflect its relatively high and predictable income generation qualities.

We also rolled our position in S&P 500 put options, extending the period of protection out to the end of January 2021. By buying 'out of the money' options we reduced the premium expense whilst still ensuring a reasonable degree of downside protection in the event of equity market falls.

Finally, we made some adjustments to manager selection in the Sterling Growth Fund during December, reallocating approximately 12% of UK equity fund holdings to a combination of a FTSE 100 index futures position and active global equity strategies. These changes were made to ensure the Fund remains fully compliant with Luxembourg UCITS regulations, following the end of the Brexit transition period which led to a cap being introduced on the percentage that can be allocated to UK domiciled funds. The changes we made are temporary while we initiate positions in alternative funds, which are run by the same managers but domiciled in Luxembourg or Dublin instead. We ensured that the changes made kept the look through asset allocation of the Portfolio more or less unchanged.

## Looking Forward

We believe that equities will make further progress and provide the bulk of returns in 2021. We are mindful of the strong gains made in recent weeks and high valuations in some parts of the market but see a rotation into undervalued sectors with the largest recovery potential: value stocks should perform well. Growth stocks play an important part in portfolio construction but high valuations and risks of big tech coming under greater regulatory scrutiny are likely to hold back returns after a stellar period of performance. Generally, we see corporate earnings rather than higher valuations driving markets in 2021.

We believe it is unlikely that bond yields will fall from current levels; more likely we see some steepening of yield curves as the year progresses and economies recover strongly. Other than in their role as the ultimate defensive investment, there are therefore few opportunities in safe haven government bonds; we continue to focus our fixed income investments on credit and emerging market debt to take advantage of their higher yields and the potential for modest spread tightening during the strong recovery phase ahead.

Finally, we believe it is important to retain protection against the risks and uncertainties that inevitably lie ahead. Gold continues to play a role and while it is unlikely to repeat its performance of 2020 it is a proven store of value during both deflationary and inflationary periods - risks which might presently seem remote, but which would have substantial impact.

Our optimism should be tempered by those risks and uncertainties. The roll-out and efficacy of the vaccines, the duration of protection and their impact on transmission; the risk of policy errors, which could be particularly damaging given the extent to which economies and markets have come to rely on central banks and governments for support during the pandemic; the huge public debt overhang which could be disruptive in funding markets; the risks of long term scarring from the pandemic; longer term inflationary concerns; the uncertain evolution of the key US-China relationship; all point to the likelihood of bumps along the way as we navigate through what we hope and expect to be the final stages of the pandemic. As ever, true portfolio diversification, including defensive assets and a range of equity styles, will be the best way to mitigate these risks and enhance returns, and most importantly it will be vital to stay invested; the highly promising prospects for 2021 should reward investors and we see any setbacks in the weeks ahead as a good opportunity to add to portfolio risk.

# Recent activity last six months

| Date | Holding initiated/ *Increased* | Holding sold/ *Decreased* | **Harmony Funds** |
|---|---|---|---|
| August | *Cash* | *Muzinich Enhanced Yield Crossover Credit / Artemis Global Short Duration High Yield* | All Portfolios |
| | *US Treasury Inflation Protected Securities (TIPS)* | *iShares Emerging Markets Government Bonds*[4]<br>*US Treasury Bonds* | All Portfolios |
| November | *First Sentier Global Sustainable Infrastructure* | *Muzinich EnhancedYield*<br>*Aviva Global Convertible Bond* | Cautious Income |
| | *Maple Brown Abbott Global Listed Infrastructure* | *Artemis Global Short Duration High Yield*<br>*Aviva Global Convertible Bond* | Diversified / Balanced Portfolios |
| | *Maple Brown Abbott Global Listed Infrastructure* | **Artemis Global Short Duration High Yield**<br>*Aviva Global Convertible Bond*<br>*Twenty Four Income Fund* | Growth Portfolios |
| December | **FTSE 100 index futures**<br>*Momentum GF Global Equity Fund* | *Schroder Recovery*<br>*RWC Equity Income*<br>*Evenlode Income* | Sterling Growth |

| | |
|---|---|
| Asset allocation decision | Manager selection decision |

[1] Part of holding retained at reduced weight in US Dollar Portfolios. [2] Part of holding retained at reduced weight in Sterling, Europe and Australian Dollar Portfolios. [3] Holding sold entirely in Australian Dollar Portfolio. [4]Holding sold entirely from Growth Portfolios

# Target Portfolios

| | Cautious | Balanced | Diversified | Growth |
|---|---|---|---|---|
| Equities | 26.5% | 35.0% | 46.5% | 58.0% |
| Property / Infrastructure | 47.0% | 36.5% | 26.0% | 15.0% |
| Fixed Income | 16.0% | 13.0% | 13.5% | 14.0% |
| Alternative | 4.5% | 6.0% | 6.0% | 4.0% |
| Commodities | 2.0% | 4.5% | 4.5% | 4.5% |
| Cash | 4.0% | 5.0% | 3.5% | 4.5% |

These target weights are correct as at the time this report is published and are indicative of the managers' medium term outlook for markets, which is driven principally by their assessment of relative valuation opportunities. Target weights are based on the Cautious Income, USD Balanced, Europe Diversified and USD Growth Funds respectively. Allocations may vary for the other Balanced and Growth Funds in the range.

# Harmony Portfolio and peer group performance

| | Fund returns (local currency) | 3 months | 6 months | 2020 | 2019 | 2018 | 2017 | 3 years (annualised) | 5 years (annualised) |
|---|---|---|---|---|---|---|---|---|---|
| | **Performance to 31 December 2020** | | | | | | | | |
| USD | **Cautious Income[1]** | **6.6%** | **8.6%** | **0.8%** | **9.4%** | | | | |
| | *Peer group median* | *4.7%* | *7.1%* | *5.5%* | *10.9%* | | | | |
| | **Balanced Portfolio** | **8.8%** | **13.6%** | **6.7%** | **14.9%** | **-7.2%** | **11.9%** | **4.4%** | **6.2%** |
| | *Peer group median* | *8.6%* | *13.6%* | *9.6%* | *13.3%* | *-7.3%* | *13.5%* | *4.8%* | *4.8%* |
| | **Growth Portfolio** | **11.4%** | **17.6%** | **7.5%** | **19.0%** | **-9.2%** | **16.2%** | **5.1%** | **7.3%** |
| | *Peer group median* | *9.4%* | *15.1%* | *10.3%* | *15.0%* | *-7.8%* | *14.9%* | *5.4%* | *6.9%* |
| | **Global Equity Portfolio[2]** | **16.3%** | **25.3%** | 12.6% | 21.5% | *-10.8%* | *26.5%* | *7.6%* | *11.3%* |
| | *Peer group median* | *13.7%* | *22.8%* | *14.4%* | *24.3%* | *-11.9%* | *22.8%* | *7.4%* | *9.5%* |
| | MSCI AC World | 14.7% | 24.0% | 16.3% | 26.6% | -9.4% | 24.0% | 10.1% | 12.3% |
| | S&P 500 | 12.0% | 21.9% | 17.8% | 30.7% | -4.9% | 21.1% | 13.5% | 14.5% |
| GBP | Cautious Income[3] | 5.5% | 6.6% | -2.1% | 7.5% | | | | |
| | *Peer group median* | 3.3% | 4.0% | 4.1% | 7.4% | | | | |
| | **Balanced Portfolio** | **7.7%** | **9.1%** | **-0.3%** | **8.2%** | **-4.2%** | **5.7%** | **1.1%** | **4.5%** |
| | *Peer group median* | *5.8%* | *6.9%* | *3.7%* | *10.0%* | *-5.5%* | *7.4%* | *2.5%* | *5.4%* |
| | **Growth Portfolio** | **9.6%** | **10.7%** | **-1.6%** | **10.8%** | **-4.9%** | **7.1%** | **1.2%** | **5.4%** |
| | *Peer group median* | *6.1%* | *7.2%* | *3.8%* | *10.4%* | *-5.7%* | *7.7%* | *2.6%* | *5.6%* |
| | MSCI AC World | 8.5% | 12.1% | 12.7% | 21.7% | -3.8% | 13.2% | 9.7% | 14.0% |
| | MSCI UK | 10.6% | 5.5% | -13.2% | 16.4% | -8.8% | 11.7% | -2.7% | 4.2% |
| EUR | Cautious Income[4] | 5.6% | 6.6% | -2.7% | 4.4% | | | | |
| | *Peer group median* | 3.3% | 4.6% | 1.3% | 4.4% | | | | |
| | **Diversified Portfolio** | **6.8%** | **9.2%** | **-1.3%** | **15.7%** | **-10.8%** | **5.0%** | **0.6%** | **2.0%** |
| | *Peer group median* | *4.9%* | *6.0%* | *0.1%* | *10.4%* | *-6.7%* | *3.5%* | *1.0%* | *1.6%* |
| | MSCI AC World | 9.9% | 13.8% | 6.7% | 28.9% | -4.8% | 8.9% | 9.4% | 9.6% |
| | MSCI Europe ex UK | 10.5% | 12.0% | 1.7% | 27.1% | -10.9% | 11.4% | 4.9% | 5.6% |
| AUD | **Cautious Income[5]** | **5.3%** | **6.5%** | **-3.0%** | | | | | |
| | *Peer group median* | *N/A* | *N/A* | N/A | | | | | |
| | **Growth Portfolio** | **6.6%** | **7.7%** | **-0.9%** | **16.2%** | **-3.9%** | **8.7%** | **3.5%** | **5.2%** |
| | *Peer group median* | *5.1%* | *6.3%* | *-1.1%* | *12.3%* | *-1.3%* | *7.5%* | *3.1%* | *4.3%* |
| | MSCI AC World | 6.6% | 10.9% | 6.4% | 27.5% | 1.2% | 15.4% | 11.1% | 11.5% |
| | ASX All Ordinaries | 14.4% | 15.7% | 3.6% | 24.1% | -3.5% | 12.5% | 7.4% | 9.3% |

# Harmony Portfolio and peer group performance

| Performance to 31 December 2020 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Fund returns (local currency) | 3 months | 6 months | 2020 | 2019 | 2018 | 2017 | 3 years (annualised) | 5 years (annualised) |
| Asia (in USD) | Balanced Portfolio | 10.4% | 15.0% | 7.1% | 11.0% | -8.8% | 14.7% | 2.7% | 5.0% |
| | *Peer group median* | *12.0%* | *18.1%* | *11.4%* | *10.9%* | *-10.5%* | *18.7%* | *3.4%* | *5.3%* |
| | Growth Portfolio | 13.8% | 19.9% | 8.5% | 12.6% | -10.6% | 19.2% | 3.0% | 6.2% |
| | *Peer group median* | *11.2%* | *17.6%* | *10.4%* | *11.1%* | *-11.2%* | *20.6%* | *2.9%* | *5.4%* |
| | MSCI AC World | 14.7% | 24.0% | 16.3% | 26.6% | -9.4% | 24.0% | 10.1% | 12.3% |
| | MSCI AC Asia Pacific ex Japan | 19.1% | 30.4% | 22.4% | 19.2% | -13.9% | 37.0% | 7.9% | 12.9% |

Past performance is not indicative of future returns. Returns are based on share class A except for Cautious Income Portfolios, which are based on share class E (accumulating).

[1]Inception date January 17 2019

[2]Historical performance, figures prior to 12 June 2020, when Momentum IF Global Equity Fund (MIF GEF) merged into the UCITS structure to combine with Momentum GF Global Equity Fund (MGF GEF), comprises three components: i) between 28 February 2009 and 16 December 2019 performance figures reflect MIF GEF A; ii) between 16 December 2019 and 9 January 2020 the performance figures are a composite of MIF GEF A and MGF GEF I on an asset-weighted basis; iii) between 9 January 2019 and 11 June 2020 the performance figures are a composite of MIF GEF I and Harmony Global Equity Fund A (Harmony GEF) on an asset-weighted basis. MIF GEF A and MGF GEF I historical performance figures have been adjusted to incorporate the prevailing fees for Harmony GEF.

[3] Inception 14 March 2019

[4] Inception 18 February 2019

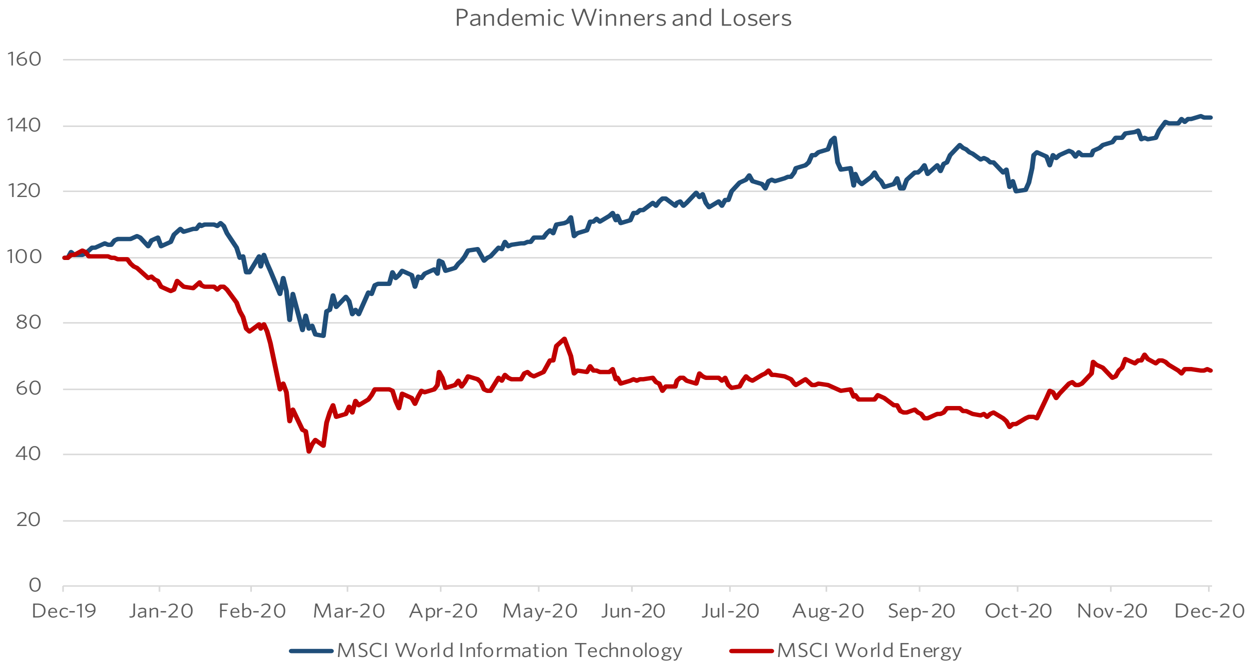
[5] Inception 27 September 2019

# Global Markets Review & Outlook

## 2020 Review

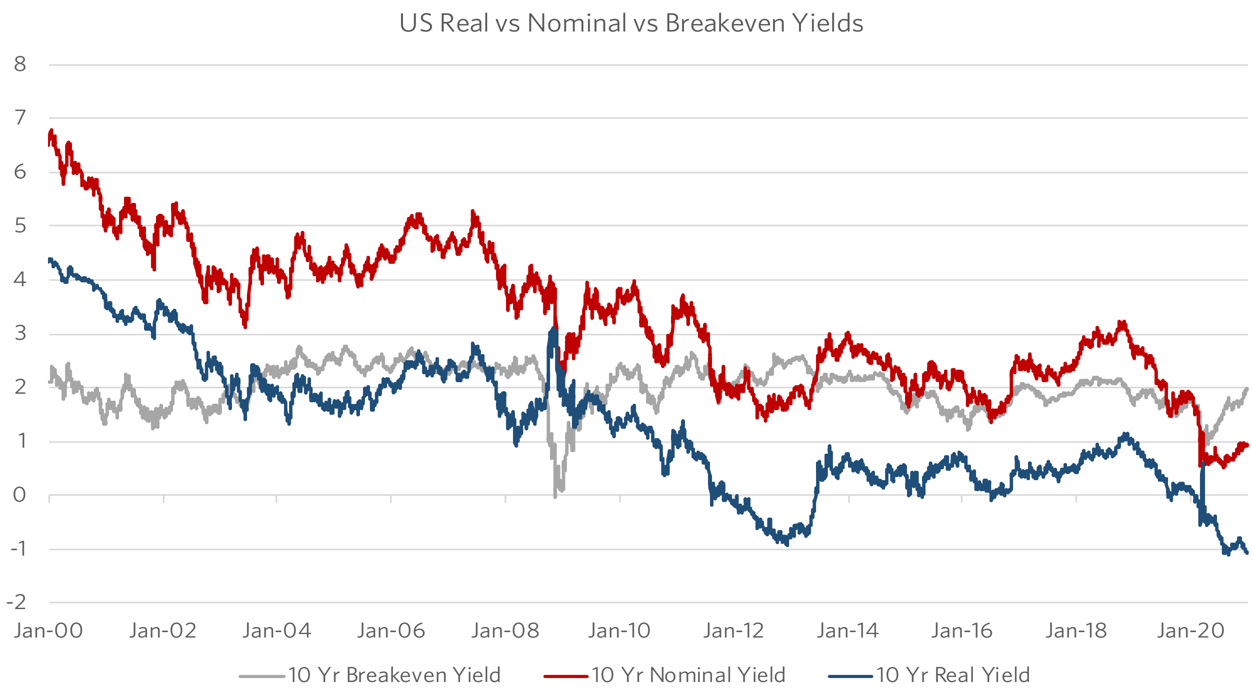
Returns in 2020 of 16% from global developed world equities, 18% from emerging markets, and 10% from global government bonds (all in USD terms) mask the enormous turmoil wrought by the coronavirus pandemic and the scale of its economic, financial and human damage: an exogenous shock with global reach, not on radar screens a year ago and matched in the past 100 years only by world war. Behind the headline figures is a year of extraordinary volatility, with a sudden and dramatic collapse of markets as the pandemic spread rapidly beyond China (at 33 days, the fastest and shortest bear market in the past century), and an equally sudden recovery triggered by fiscal and monetary support on a scale never before seen.

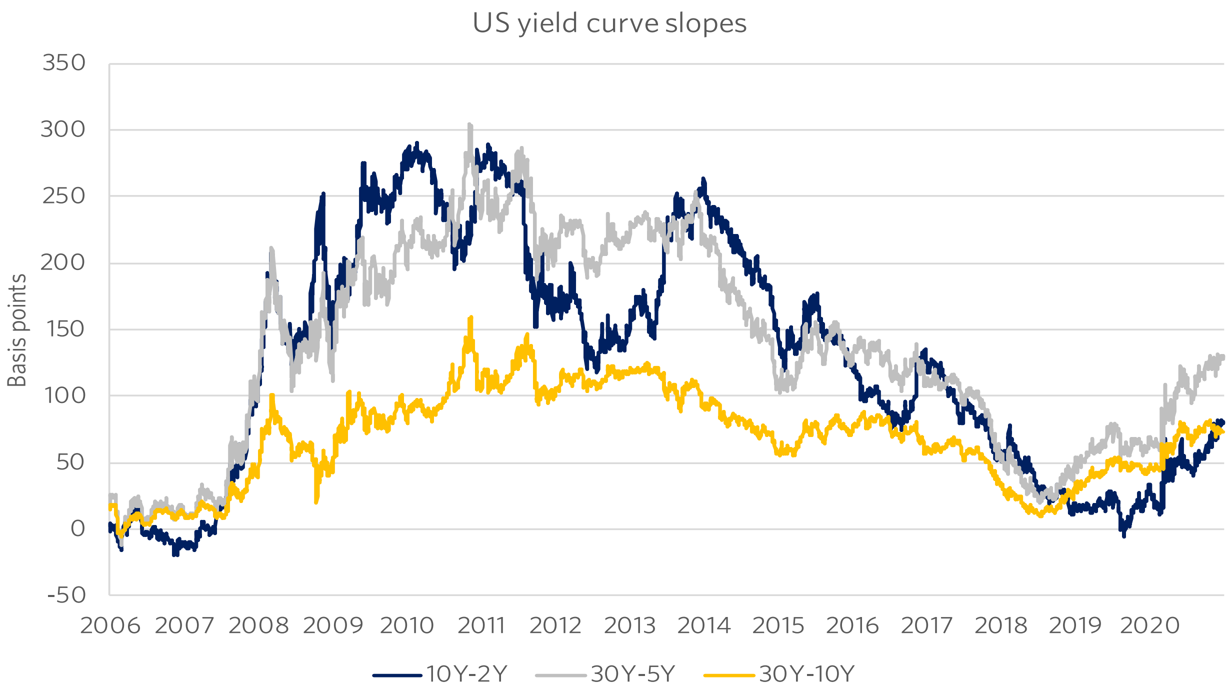
There was huge volatility between and within markets too; without the phenomenal performance of the digital winners from the pandemic and the behavioural changes triggered, aggregate equity market returns would be very different: value stocks, largely reflecting the pandemic losers such as energy, financials, real estate, hospitality and tourism, were down over the year, despite a rally of 19% in the final 2 months following the news of vaccine success and, to a lesser extent, Biden's election as US President. At a regional level the differing extent of the economic damage from COVID-19 together with the proportion of pandemic winners in stock markets produced substantial differences in performance. The US returned 18% in the year, dominated by the so-called FAANGs and other tech stocks, and east Asian markets also performed well as they were seen to bring the pandemic under control more effectively than elsewhere, whereas Europe struggled with more damaging economic impacts from the pandemic, and a worrying second wave later in the year, as well as higher exposure to value stocks. Europe ex UK managed only a marginal gain in euro terms in the year while the UK market was down 13%, negatively impacted too by the intense uncertainty, at least until Christmas Eve, surrounding the shape of the future trading relationship with the EU. In emerging markets the bulk of returns came from China, up 30%, which recovered from the pandemic more rapidly and successfully than elsewhere; emerging markets in SE Asia, Europe and Latin America suffered double digit falls.




Source: Bloomberg, Momentum Global Investment Management

Bond markets were driven by a substantial fall in both nominal and real yields as policy rates were cut to near or below zero across the developed world and real rates fell to new lows, well into negative territory. Returns for the year were led by the higher yielding bond markets, with the US and UK +8-9%, while in the euro area the peripheral markets significantly outperformed German bonds as spreads tightened in the face of substantial ECB buying. However, most of the returns on government bonds came in the first half of the year when economies slumped into deep recession. As recovery took hold and positive news of vaccine developments emerged, along with increased prospects for a substantial fiscal spending programme in the US as a result of Biden's win, the yield on 10 year US Treasuries rose from a low of 0.5% in early August to 0.9% by year end, having started 2020 just shy of 2%.

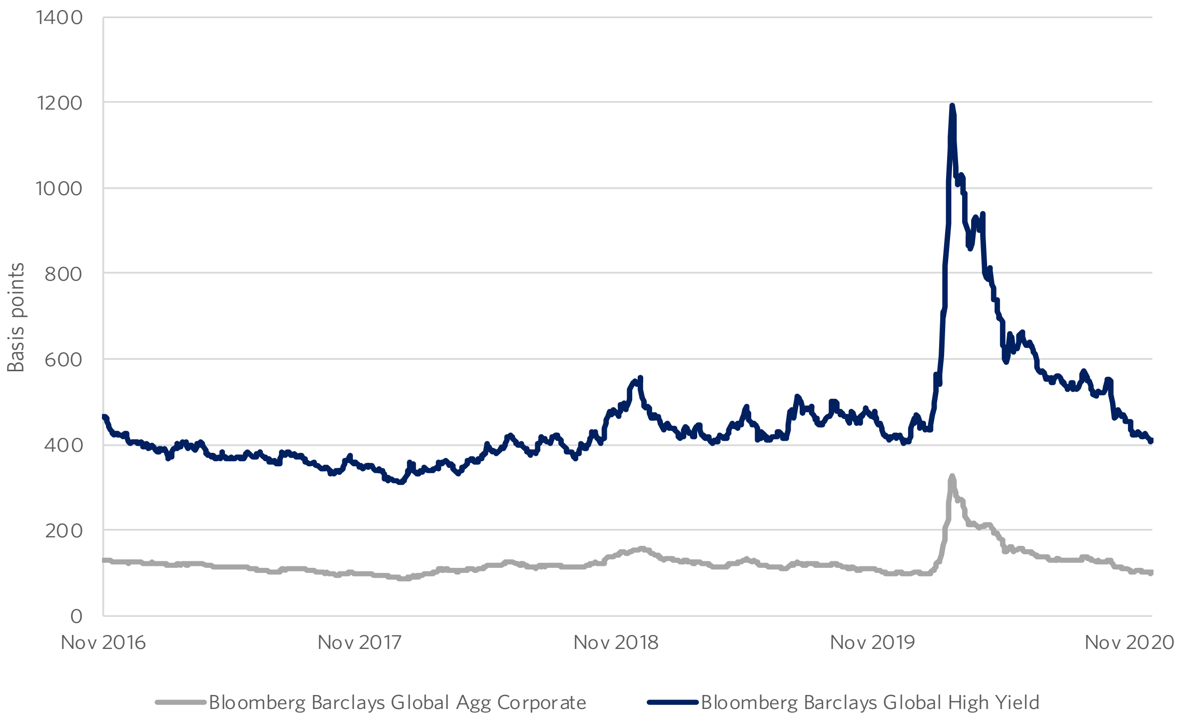



Source: Bloomberg, Momentum Global Investment Management

Credit markets fell sharply as the pandemic took hold in Q1 but recovered rapidly in the face of massive injections of liquidity, falling interest rates and a hunt for yield. As the 'reflation trade' emerged later in the year credit spreads narrowed to near historic lows, and investment grade, high yield and emerging market bonds outperformed government bonds, recovering most of their underperformance earlier in the year. However, the stand-out performance in the year in the fixed income sector was a 23% return from convertible bonds, a highly risk-efficient asset to own in multi-asset portfolios, providing participation in equity market upside along with downside protection from the bond component.

Global Credit Spreads




Source: Bloomberg, Momentum Global Investment Management

Inflation expectations, having fallen sharply as economies collapsed during the first wave of the pandemic, picked up during the second half of the year as prospects for economic recovery improved while central banks continued to pursue an aggressive monetary easing programme across the world, fuelling concerns among investors that inflation could pick up in the medium term.

A combination of intense uncertainty, zero interest rates, a weak dollar, down 13% on a trade weighted basis from its March peak to the year end, and historically low rates on other defensive assets, led to the gold price moving to all-time highs of over $2000 by August. Growing confidence in recovery and vaccine development saw a period of consolidation in gold, which ended the year at $1900, still one of the best asset class returns in 2020 of 25%, proving its mettle as an excellent portfolio diversifier.

Globally and across asset classes, ESG investing moved into a new phase in 2020 and is now fully mainstream in portfolio construction. While the outperformance of sustainability factors was mostly due to the economic collapse triggered by the pandemic and resultant underperformance of the least 'green' sectors, rather than by ESG factors alone, the shift to ESG investing is an irreversible trend.

## 2021 Outlook

As we enter the new year the deep uncertainties which beset 2020 have lifted. Back in March, the end of the pandemic was nowhere in sight, few had expectations of a vaccine for several years or indeed ever, many expected a chaotic end to the UK's transition period with the EU, and fears about the outcome of the US Presidential election were surfacing. Although second waves and mutations of coronavirus are ravaging many parts of the world, particularly the developed economies of the northern hemisphere, the extraordinary achievements of scientists in developing effective vaccines in record time have been a game changer. There is now not just light at the end of the tunnel, but the exit is in full sight.

Risks remain, notably around the effectiveness of vaccines against the new emerging strains of the virus and the logistical challenges of mass vaccination programmes, but there is now a clear path to exiting the restrictions which have inflicted immense damage on economies and especially certain sectors, on business and consumer confidence, and on employment. The first quarter of the year will be very tough and could well result in double-dip recessions in parts of Europe and North America, but thereafter the beginnings of a return to near-normality should be underway and the conditions are set for a strong recovery: release of pent-up consumer demand, renewed business investment, refocus of fiscal spending on stimulus and growth rather than support for businesses and people most damaged by the pandemic, and continuing ultra-loose monetary policy.

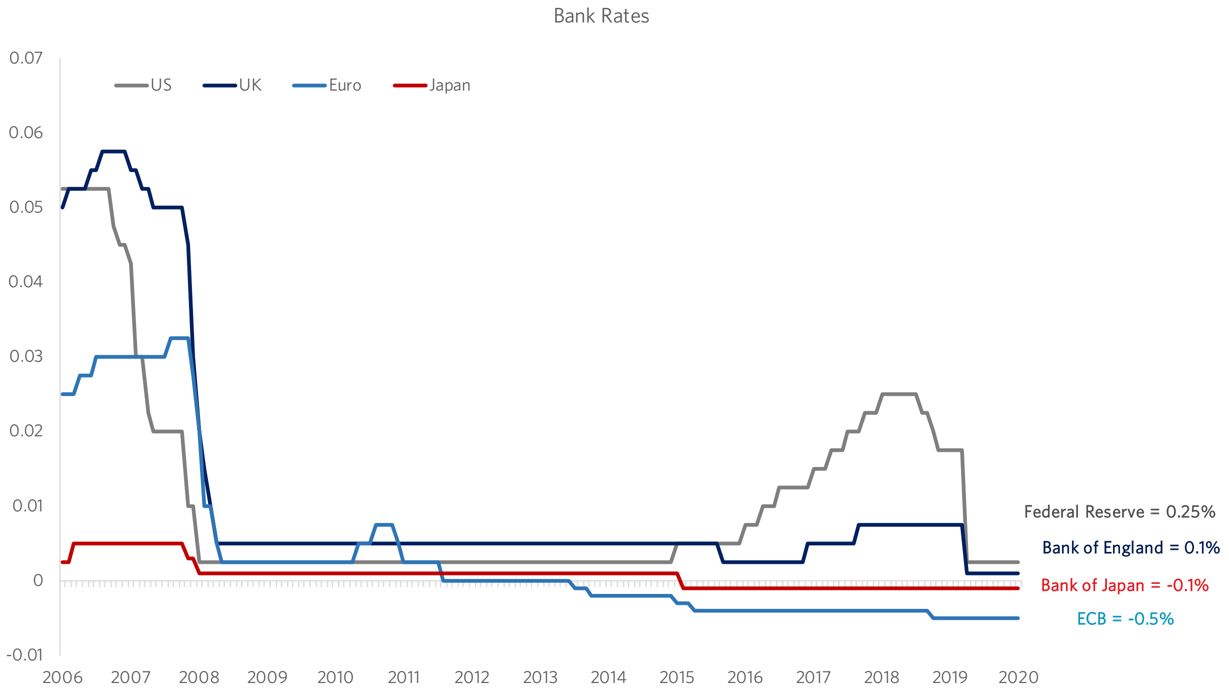
While the pandemic has rightly dominated the narrative in the past year, and the vaccine success was by far the most important development in Q4, the news on the US election and the UK-EU Brexit deal were also very significant and lift heavy clouds that have been holding back confidence. The end of the chaotic Trump era and return of stability, predictability and reliability in US leadership have been widely welcomed, and the much-feared contested election and break down of law and order have been largely avoided: the constitution has prevailed. Biden's success is likely to result in larger fiscal packages to promote growth, along with some tax rises, but the more extreme elements of the Democrat's policy agenda are unlikely to be implemented given the narrowness of the result, especially in the Senate. Stricter regulations for 'big tech' are now more likely but there will be a thawing of international relationships, especially with US allies, a return to the post WWII international order, and renewed focus on multi-lateralism. Trade related uncertainty will be much reduced, although relations with China will be one of Biden's greatest challenges beyond the pandemic, with a return to the pre-Trump status quo ante highly unlikely given the bi-partisan support for a more hawkish approach to China; Sino-US tensions are likely to continue to play out through trade and tariff controls, security, human rights and more subversively through Hong Kong.

In classic EU style, the Brexit negotiations came down to the wire, but in the event PM Johnson confounded the doomsayers by delivering a trade deal free of tariffs and quotas while restoring sovereignty and taking the UK out of the jurisdiction of the European Court of Justice. His manifesto commitment of 'getting Brexit done' has been fulfilled and has given the UK much-needed good news and a boost to confidence after four and a half years of post-referendum uncertainty. In the PM's own words 'the old and vexed question of Britain's political relations with Europe' have been resolved; aside from a small minority of hard core 'rejoiners' the country has moved on. There are challenges ahead as the UK adjusts to its new trading arrangements with its biggest partner, and there is much to be resolved around service industries, most importantly the key finance sector, but there is no question that the deal removes intense uncertainty and brings new opportunities globally. Already the UK has agreed trade deals with 62 countries and is in advanced discussions with the biggest prize, the US. Together with the UK's early approval and roll-out of vaccines, the Brexit deal brings much greater optimism, the foundation for a robust recovery, and is likely to herald the end of the long period of underperformance of the UK equity market.

## Conclusion

Despite the human and economic distress being inflicted by the pandemic on large parts of the world, we enter 2021 with considerable optimism. The vaccines will facilitate a gradual lifting of social mobility and other economically damaging restrictions, and in time will restore near-normality. The first quarter of the year will be challenging but beyond that there are grounds for expecting a very strong rebound in activity. Much of 2021 and into 2022 should be an unusually strong period for global growth, underpinning a huge recovery in corporate earnings. Beyond the pandemic, the biggest of the immediate worries, Brexit and the US Presidency, have been removed and political issues should feature much less among investor concerns.

At the same time, policy measures will be supportive. Central banks across the world are committed to maintaining substantial asset purchases and interest rates at or very close to the lower effective bound, close to or below zero. There is no prospect of increases in policy rates in 2021, and probably for a considerable time beyond. The importance of the Fed's decision in late 2020 to move to average inflation targeting should not be under-estimated; it means the Fed is prepared to let the economy 'run hot' for a period to achieve its inflation target and underpins the case for 'lower-for-longer'. The ECB is currently reviewing its own policy and is likely to move to a similar approach during 2021.




Source: Bloomberg, Momentum Global Investment Management

The enormous emergency fiscal support provided by many governments to offset the damage wrought by the pandemic will taper off during the year as the virus retreats, but we see no appetite for, or return to, fiscal austerity. With borrowing rates at or close to all-time lows and negative in real terms, the case for increased levels of capital spending is difficult to deny.

Spending will shift to growth enhancing measures, covering infrastructure, communications and green energy/ climate change initiatives. The time to focus on paying down the debt mountains built up during the pandemic will come, but not yet as recovery has yet to take firm hold and the global economy is too fragile. During this period an increasing alignment between fiscal and monetary policies is likely, whether by design or otherwise. The test for its durability will surely come if inflation begins to pick up; although this is highly unlikely in the year ahead given the current state of the global economy and over-capacity, it is a risk not to be dismissed.

# Market Performance

| Asset Class / Region | Index | Currency | To 31 December 2020 Quarter | 12 months |
|---|---|---|---|---|
| **Developed Markets Equities** | | | | |
| United States | S&P 500 NR | USD | 12.0% | 17.8% |
| United Kingdom | MSCI UK NR | GBP | 10.6% | -13.0% |
| Continental Europe | MSCI Europe ex UK NR | EUR | 10.5% | 1.7% |
| Japan | Topix TR | JPY | 11.2% [e] | 7.4% [e] |
| Asia Pacific (ex Japan) | MSCI AC Asia Pacific ex Japan NR | USD | 19.1% | 22.4% |
| Global | MSCI World NR | USD | 14.0% | 15.9% |
| **Emerging Markets Equities** | | | | |
| Emerging Europe | MSCI EM Europe NR | USD | 22.5% | -12.5% |
| Emerging Asia | MSCI EM Asia NR | USD | 18.9% | 28.4% |
| Emerging Latin America | MSCI EM Latin America NR | USD | 34.8% | -13.8% |
| BRICs | MSCI BRIC NR | USD | 15.3% | 17.6% |
| China | MSCI China NR | USD | 11.2% | 29.5% |
| Global emerging markets | MSCI Emerging Markets NR | USD | 19.7% | 18.3% |
| **Bonds** | | | | |
| US Treasuries | JP Morgan United States Government Bond TR | USD | -0.9% | 8.4% |
| US Treasuries (inflation protected) | BBgBarc US Government Inflation Linked TR | USD | 1.6% | 11.5% |
| US Corporate (investment grade) | BBgBarc US Corporate Investment Grade TR | USD | 3.0% | 9.9% |
| US High Yield | BBgBarc US High Yield 2% Issuer Cap TR | USD | 6.4% | 7.0% |
| UK Gilts | JP Morgan UK Government Bond TR | GBP | 0.6% | 9.0% |
| UK Corporate (investment grade) | ICE BofAML Sterling Non-Gilt TR | GBP | 3.2% | 8.0% |
| Euro Government Bonds | ICE BofAML Euro Government TR | EUR | 1.2% | 4.9% |
| Euro Corporate (investment grade) | BBgBarc Euro Aggregate Corporate TR | EUR | 2.0% | 2.8% |
| Euro High Yield | BBgBarc European High Yield 3% Constrained TR | EUR | 5.2% | 2.3% |
| Japanese Government | JP Morgan Japan Government Bond TR | JPY | 0.0% | -1.0% |
| Australian Government | JP Morgan Australia GBI TR | AUD | -0.6% | 4.4% |
| Global Government Bonds | JP Morgan Global GBI | USD | 2.3% | 9.7% |
| Global Bonds | ICE BofAML Global Broad Market | USD | 2.7% | 8.9% |
| Global Convertible Bonds | ICE BofAML Global Convertibles | USD | 18.9% | 39.2% |
| Emerging Market Bonds | JP Morgan EMBI+ (Hard currency) | USD | 5.6% | 7.1% |

| | | | To 31 December 2020 | |
|---|---|---|---|---|
| **Asset Class / Region** | **Index** | **Currency** | **Quarter** | **12 months** |
| **Property** | | | | |
| US Property Securities | MSCI US REIT NR | USD | 11.2% | -8.7% |
| Australian Property Securities | S&P/ASX 200 A-REIT Index TR | AUD | 11.8% | -8.0% |
| Asia Property Securities | S&P Asia Property 40 Index NR | USD | 7.7% | -11.6% |
| Global Property Securities | S&P Global Property USD TR | USD | 12.5% | -7.2% |
| **Currencies** | | | | |
| Euro | | USD | 4.2% | 8.9% |
| UK Pound Sterling | | USD | 5.8% | 3.1% |
| Japanese Yen | | USD | 2.1% | 5.1% |
| Australian Dollar | | USD | 7.4% | 9.6% |
| South African Rand | | USD | 14.0% | -4.7% |
| **Commodities & Alternatives** | | | | |
| Commodities | RICI TR | USD | 14.5% | -7.7% |
| Agricultural Commodities | RICI Agriculture TR | USD | 17.2% | 16.8% |
| Oil | Brent Crude Oil | USD | 26.5% | -21.5% |
| Gold | Gold Spot | USD | 0.7% | 25.1% |
| Hedge funds | HFRX Global Hedge Fund | USD | 5.1% | 6.8% |

Source: Bloomberg. December 2020.
Past performance is not indicative of future returns.

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Our investment mandates in alternative strategies and hedge funds permit us to invest in unregulated funds that may be highly volatile. Although alternative strategies funds will seek to follow a wide diversification policy, these funds may be subject to sudden and/or large falls in value. The illiquid nature of the underlying funds is such that alternative strategies funds deal infrequently and require longer notice periods for redemptions. These Investments are therefore not readily realisable. If an alternative strategies fund fails to perform, it may not be possible to realise the investment without further loss in value. These unregulated funds may engage in the short selling of securities or may use a greater degree of gearing than is permitted for regulated funds (including the ability to borrow for a leverage strategy). A relatively small price movement may result in a disproportionately large movement in the investment value. The purpose of gearing is to achieve higher returns associated with larger investment exposures, but has concomitant exposure to loss if positive performance is not achieved. Reliable information about the value of an investment in an alternative strategies fund may not be available (other than at the fund's infrequent valuation points).

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multi-manager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

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