Insight INVESTMENT

OCTOBER 2021

MONTHLY UPDATE
ABSOLUTE INSIGHT CURRENCY FUND

MARKET BACKDROP

The US dollar (USD) rallied 1.7% in September on a trade-weighted basis, with an intra-month range of 2.8%. The USD started the month on the back foot, but rallied consistently through the latter three weeks of September as global risk appetite worsened and US Treasury (UST) yields rose. Fears around Chinese property developer Evergrande defaulting on its debt, ongoing Delta variant concerns and global supply chain disruptions drove the risk-off mood in markets. Federal Reserve (Fed) Chair Powell stating tapering could come "as soon as the next meeting [in November]" further helped the USD; slowing global growth momentum with an increasingly hawkish Fed provided a favourable environment for USD outperformance.

The euro (EUR) weakened by 1.9% versus the USD in September. European rates underperformed USTs early in the month following hawkish ECB rhetoric, but this price action reversed later in the month, with the EUR trading lower. The previous year-to-date (YTD) low of ~1.17 had provided good support, but once broken EURUSD rapidly fell to a new YTD low of 1.1565. The Japanese yen (JPY) fell 1.1% versus the USD in September. Despite usually providing a good risk-off hedge, the JPY has historically weakened when UST yields are rising; given the sharp move in rates, USDJPY was higher on the month despite the worsening risk backdrop. Domestic economic data on Japan was weak through the month, though USDJPY appeared to move more in response to global risk appetite than domestic data.

The pound sterling (GBP) had another weak month, falling 2.0% against the USD. The GBP suffered not only from the broad USD move, but also from the UK's role at the heart of the energy crisis late in the month, with petrol shortages fuelling fears of a more sustained spike in inflation in late 2021 and into 2022. The Bank of England (BoE) was hawkish in an attempt to calm these fears, stating that rate hikes may become appropriate even if asset purchases were ongoing. However, markets moved to price in the possibility of the BoE losing control over inflation – 5-year inflation breakevens were 35 basis points higher through the month, and GBPUSD traded at YTD lows despite gilt yields underperforming peers.

Commodity prices were again volatile in September – Brent crude rallied 7.6% in response to the global energy crunch and reduced US supply due to Hurricane Ida. A 36% gain in natural gas prices in September contributed to oil's outperformance as oil was substituted for gas. Industrial metals were slightly softer (-2.2%) in September, though iron ore was 5.6% weaker in response to concerns over the Chinese property sector.

PERFORMANCE AND ACTIVITY

The Fund made a positive return in September.

We started the month with a small USD long, which was reduced to broadly flat mid-month. In the last week of September, we rebuilt this long USD position to end the month ~28% long the USD. We added selective shorts in emerging market currencies versus the USD, including the Polish zloty (PLN), Chilean peso (CLP) and Brazilian real (BRL). These positions contributed positively to performance. We maintained our exposure to the JPY, through a short position in EURJPY. This position detracted from performance. We added long exposure to the Australian dollar (AUD) versus the New Zealand dollar (NZD), on the basis of ambitious pricing of the Reserve Bank of New Zealand compared with conservative expectations for the Reserve Bank of Australia, alongside extreme short positioning in AUDNZD. This position contributed positively to performance.

The scorecard component of the portfolio made a negative contribution to performance in September. Signals included long positions in CE3 (Polish zloty, the Hungarian forint and the Czech koruna) currencies, where the market had been pricing in rate-hiking cycles. Given the more general growth slowdown and risk-on sentiment, these signals underperformed.

FUND PERFORMANCE AS AT END SEPTEMBER 2021 (%)[1]

	1-month	3-month	1-year	3-year (pa)	5-year (pa)
Absolute Insight Currency Fund	0.24	-1.61	-1.65	-1.16	-2.09
Benchmark: 3-month LIBID	0.00	-0.01	-0.06	0.33	0.34

	YTD	2020	2019	2018	2017	2016
Absolute Insight Currency Fund	-3.06	-0.73	-3.76	-6.31	-2.43	3.22
Benchmark: 3-month LIBID	-0.04	0.68	0.60	0.23	0.38	0.45

[1] All data sourced from Insight and Bloomberg. Returns are sterling, share class B2P and net of 0.85% annual management charge.

OUTLOOK

Slowing global growth, a hawkish turn from the Fed and other risk factors to emerge in September (Evergrande, fuel shortages etc.) have made the environment more positive for the USD. Central banks seeking to remove stimulus despite worsening global conditions will likely, in our view, continue to challenge cyclical currencies and risk assets more broadly over the coming months.

FUND SUMMARY

Objective: Provide attractive, positive absolute returns in all market conditions.

Performance aim: Aims to outperform its performance benchmark (3-month LIBID) over a rolling 12-month period after fees and will measure its performance against this.

Seeks to generate returns of up to 3-month LIBID plus 4% gross of fees over an annualised five-year period, while being mindful of the investment objective.

Table 1: 5-year return (annualised, %)[2]

Absolute Insight Currency Fund (gross of fees)	-1.16
3-month LIBID	0.34
3-month LIBID plus 4%	4.34

[2] All data sourced from Insight and Bloomberg.

IMPORTANT INFORMATION

FIVE-YEAR PERFORMANCE RECORD TO 30 SEPTEMBER 2021

	Calendar year returns					12-month rolling returns				
	2020	2019	2018	2017	2016	2020-2021	2019-2020	2018-2019	2017-2018	2016-2017
Absolute Insight Currency Fund (GBP)	1.50	0.27	-2.79	-5.37	-1.45	-0.55	-0.21	0.23	-3.72	-1.25
3-Month GBP LIBID	0.17	0.68	0.60	0.23	0.38	-0.06	0.36	0.70	0.50	0.21

Please refer to the following risk disclosures. Returns shown gross of fees. The Absolute Insight Currency Fund (C0891/AILCCYUP) is in GBP. Inception date: 28 February 2007.

RISK DISCLOSURES

Past performance is not indicative of future results. Investment in any strategy involves a risk of loss which may partly be due to exchange rate fluctuations.

The performance results shown, whether net or gross of investment management fees, reflect the reinvestment of dividends and/or income and other earnings. Any gross of fees performance does not include fees and charges and these can have a material detrimental effect on the performance of an investment.

Any target performance aims are not a guarantee, may not be achieved and a capital loss may occur. Funds which have a higher performance aim generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected.

Portfolio holdings are subject to change, for information only and are not investment recommendations.

ASSOCIATED INVESTMENT RISKS

Absolute Insight Currency Fund

- Derivatives may be used to generate returns as well as to reduce costs and/or the overall risk of the portfolio. Using derivatives can involve a higher level of risk. A small movement in the price of an underlying investment may result in a disproportionately large movement in the price of the derivative investment.
- The investment manager may invest in instruments which can be difficult to sell when markets are stressed.
- While efforts will be made to eliminate potential inequalities between shareholders in a pooled fund through the performance fee calculation methodology, there may be occasions where a shareholder may pay a performance fee for which they have not received a commensurate benefit.

FIND OUT MORE

Institutional Business Development
businessdevelopment@insightinvestment.com
+44 20 7321 1552

European Business Development
europe@insightinvestment.com
+49 69 12014 2650
+44 20 7321 1928

Consultant Relationship Management
consultantrelations@insightinvestment.com
+44 20 7321 1023

@InsightInvestIM
company/insight-investment
www.insightinvestment.com