MULTI-ASSET MONTHLY

Insight Broad Opportunities Fund (IBOF, GBP)

End of October 2019

SUMMARY

October began with noticeable weakness in US manufacturing and services survey data, bringing concerns for the outlook for global growth back to the fore, and these fears were exacerbated by heightened geopolitical uncertainty. In the second half of the month these trends reversed and the environment was more constructive for risk assets. US-China trade tensions showed signs of de-escalation and preliminary survey data suggested the global activity slowdown was potentially abating. The declining prospect of the UK leaving the EU without a deal also helped risk sentiment.

The portfolio generated a return of 0.37% over the month, taking the year-to-date return to 10.76%. Equities, total return strategies and real assets delivered positive returns. Longer-dated government bond yields rose, detracting from returns within fixed income.

ECONOMIC AND MARKET REVIEW

October proved to be a month of two halves – in terms of data, the US-China trade war, and Brexit. On the data front, we started with some strikingly weak ISM survey balances for both manufacturing and non-manufacturing activity in the US (see Chart 1, below). This heightened concern over whether or not weakness in the former was having a damping effect on services, and would continue to do so over coming months. Weak US sales (on the 'control' measure that goes into the GDP calculation) reinforced that concern.

On a wider level, disappointing Chinese survey data, along with weak export numbers from Taiwan and China, helped cast a shadow over global growth – as did the apparent escalation of the trade war prompted by the US decision to block 28 Chinese technology companies from buying US-made goods.

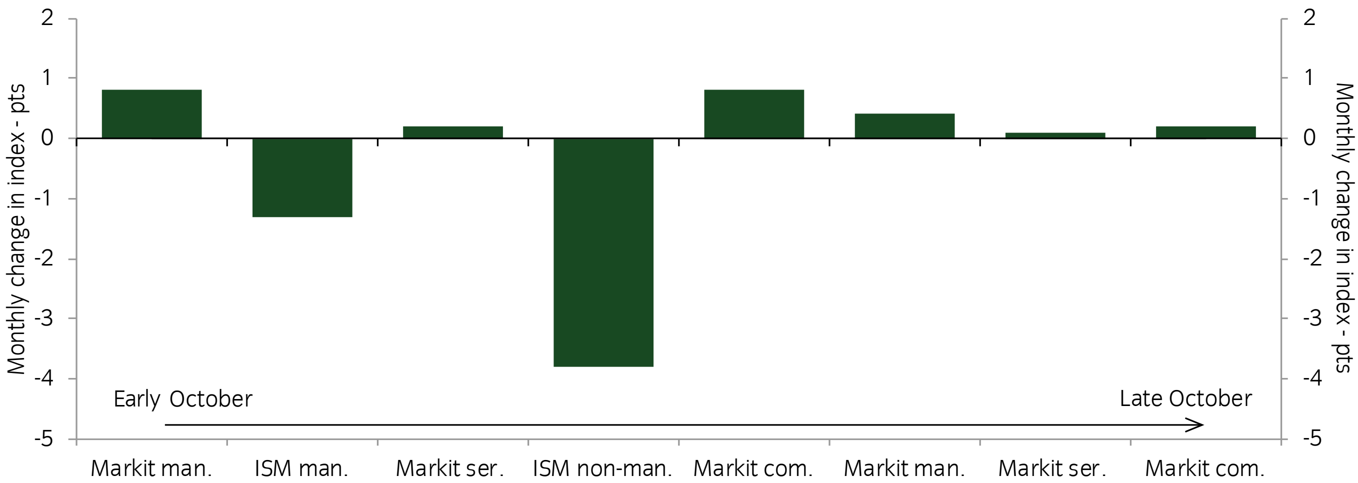
While all that was going on, concern over the possibility of a hard Brexit increased. Prime Minister Johnson agreed a new deal with the EU, but was unsuccessful in trying to push this through Parliament with limited debate on its detail. Another parliamentary stalemate emerged, with Prime Minister Johnson implying he would consequently find a way around asking the EU for another extension – despite being compelled to do so by legislation (the so-called Benn Act).

As a result, the first half of the month wasn't particularly positive for risk assets. But as we moved into the second half of the month, things started to improve. It's true that Chinese GDP growth was shown to have fallen to its lowest rate for some time, and that official Chinese purchasing managers' index (PMI) numbers were disappointing. But the preliminary PMI balances for other countries/regions suggested things might be starting to get a bit better.

As important, if not more so, rhetoric on trade improved significantly. Chinese and US officials both intimated that substantial progress had been made on a Phase 1 agreement. Later in the month, US officials said the two parties were close to finalising sections of that agreement. Later still, President Trump said negotiations were ahead of schedule on a big part of the deal – the plan being for leaders to sign something in November at the Asia Pacific Economic Cooperation meeting in Chile.

In the midst of this thaw in relations, the Federal Open Market Committee cut its target rate band by another 25bp. That could have been viewed as bearish on growth, but markets preferred to focus on the support to activity it provided and that the Committee made it clear it was moving from a place where it would take "appropriate action" to one where future rate decisions would be made on the basis of developments in key US and global data (i.e. moving away from the worst of the slowdown).

Chart 1: US survey data on activity, released during October



Source: Bloomberg and Insight Investment as at 4 November 2019.

Sentiment in the second half of the month was also helped by the fact that Prime Minister Johnson was ultimately forced to ask for a Brexit extension – which more or less eliminated the prospect of a no-deal exit at the end of the month. That was enough to prompt the opposition parties to accept the Prime Minister's call for a general election that will, in effect, be a second referendum on leaving the EU (although the vote will be muddied by a broader mix of policy issues).

Put all of these developments together, and uncertainty and pessimism fell back in most of the key economies – providing an important support for risk assets (see Chart 2, below). US equities were also helped by a better-than-expected earnings season – with earnings growth down only 2% rather than the 4% expected.

With the outlook for global growth improving, 10-year bond yields in the key economies rose over the month (see Chart 3, on the following page).

Equities rose in all regions except the UK, where an improved outlook with respect to Brexit translated into a near 4% increase in the sterling trade-weighted index (see Charts 4 and 5).

The impact of these and other asset-price moves on our portfolio returns is outlined in greater depth in the portfolio performance and activity section on page 4.

Key economic releases

	May 2019	Jun 2019	Jul 2019	Aug 2019	Sep 2019	Oct 2019
US						
Policy rate	2.38	2.38	2.13	2.13	1.88	1.63
Man. sentiment	52.1	51.7	51.2	49.1	47.8	48.3
Inflation	1.8	1.6	1.8	1.7	1.7	-
Eurozone						
Policy rate	0.00	0.00	0.00	0.00	0.00	0.00
Man. sentiment	47.7	47.6	46.5	47.0	45.7	45.7
Inflation	1.2	1.3	1.0	1.0	0.8	0.7
UK						
Policy rate	0.75	0.75	0.75	0.75	0.75	0.75
Man. sentiment	49.4	48.0	48.0	47.4	48.3	49.6
Inflation	2.0	2.0	2.1	1.7	1.7	-
Japan						
Policy rate	-0.06	-0.08	-0.07	-0.06	-0.06	-0.03
Man. sentiment	49.8	49.3	49.4	49.3	48.9	48.4
Inflation	0.7	0.7	0.5	0.3	0.2	-
Australia						
Policy rate	1.50	1.25	1.00	1.00	1.00	0.75
Man. sentiment	52.7	49.4	51.3	53.1	54.7	51.6
Inflation	-	1.6	-	-	1.7	-

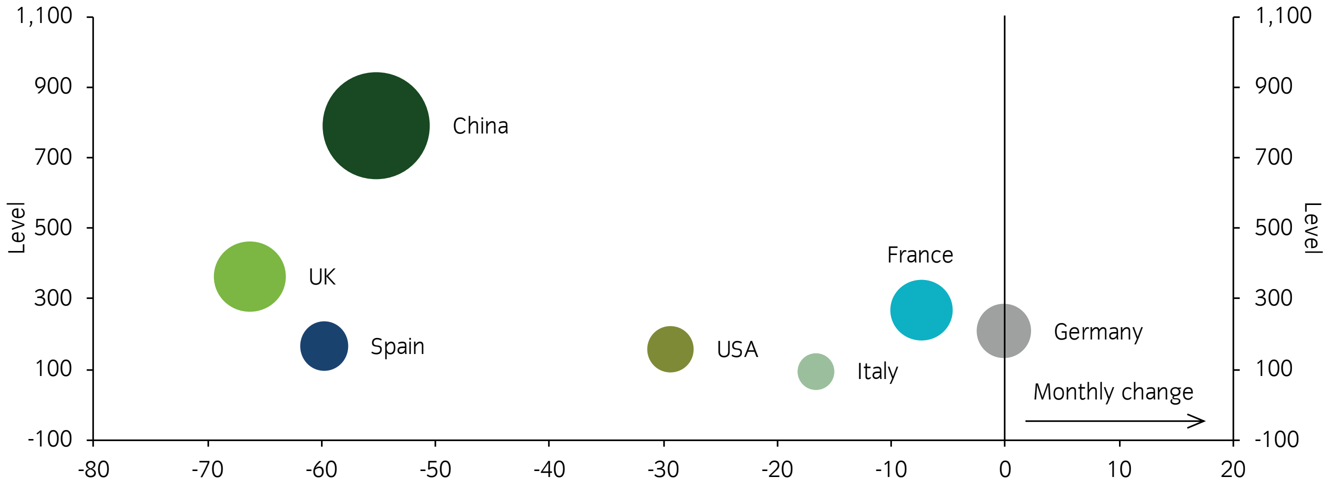
Source: Bloomberg, Thomson Reuters and Insight Investment.

Key financial market metrics

	May 2019	Jun 2019	Jul 2019	Aug 2019	Sep 2019	Oct 2019
Equities – monthly change						
S&P	-6.6	6.9	1.3	-1.8	1.7	2.0
Eurostoxx 50	-6.7	5.9	-0.2	-1.2	4.2	1.0
FTSE 100	-3.5	3.7	2.2	-5.0	2.8	-2.2
Nikkei 225	-7.4	3.3	1.2	-3.8	5.1	5.4
ASX 200	1.1	3.5	2.9	-3.1	1.3	-0.4
KOSPI	-7.3	4.4	-5.0	-2.8	4.8	1.0
Bond yields - percent						
US 10-year	2.12	2.01	2.01	1.50	1.66	1.69
DE 10-year	-0.20	-0.33	-0.44	-0.70	-0.57	-0.41
UK 10-year	0.89	0.83	0.61	0.48	0.49	0.63
JP 10-year	-0.09	-0.16	-0.15	-0.27	-0.21	-0.13
AU 10-year	1.46	1.32	1.19	0.89	1.02	1.14
KR 10-year	1.67	1.60	1.39	1.30	1.46	1.73
Exchange rates - level						
EURUSD	1.12	1.14	1.11	1.10	1.09	1.11
GBPUSD	1.26	1.27	1.22	1.22	1.23	1.29
USDJPY	108	108	109	106	108	108
USDAUD	0.69	0.70	0.69	0.67	0.67	0.69
USDKRW	1,191	1,155	1,183	1,211	1,196	1,164

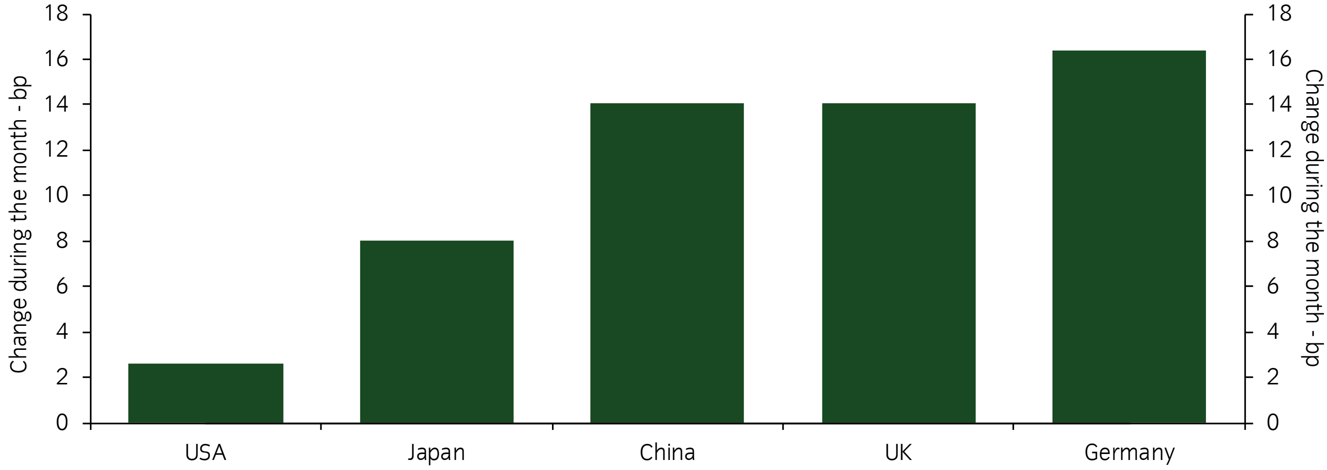
Source: Bloomberg, Thomson Reuters and Insight Investment.

Chart 2: Global uncertainty increased in October



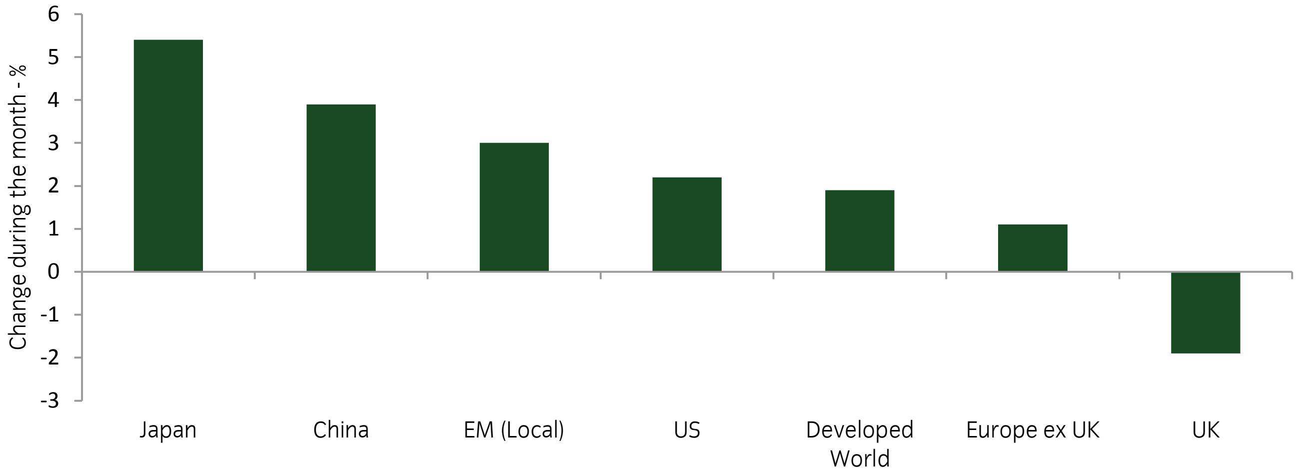
Source: Bloomberg, Thomson Reuters and Insight Investment as at 4 November 2019.

Chart 3: Global change in 10-year bond yields during October 2019



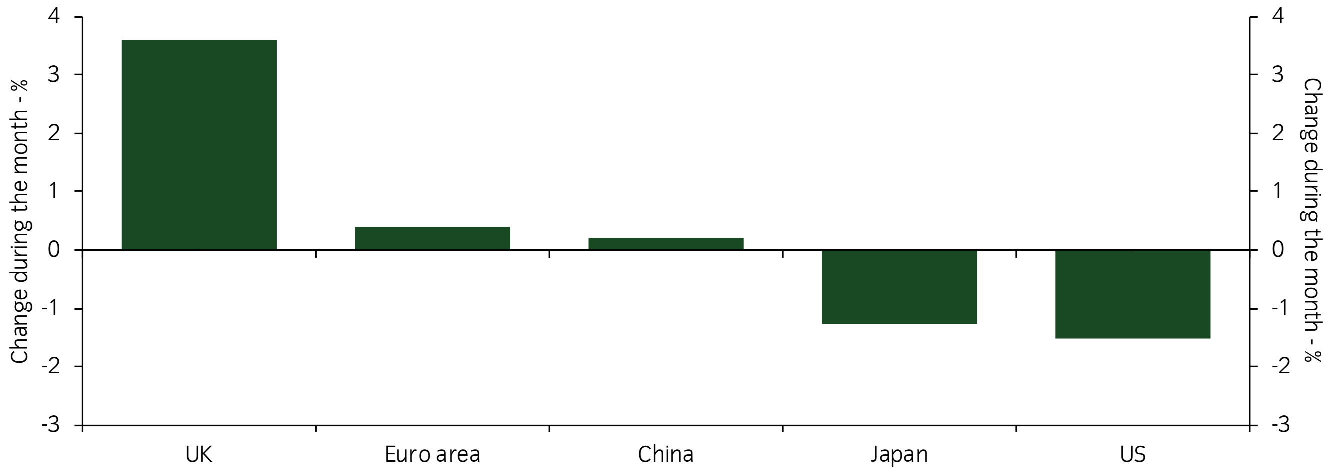
Source: Bloomberg and Insight Investment as at 4 November 2019.

Chart 4: Global change in equity markets during October 2019



Source: Bloomberg and Insight Investment as at 4 November 2019.

Chart 5: Global change in trade-weighted exchange rates during October 2019



Source: Bloomberg and Insight Investment as at 4 November 2019.

PORTFOLIO PERFORMANCE AND ACTIVITY

DRIVERS OF PORTFOLIO PERFORMANCE

The portfolio generated a return of +0.37% over the month, taking the year-to-date return to +10.76%. Equities, total return strategies and real assets delivered positive returns, while the de-escalation in US-China trade tensions and improving global growth outlook contributed to higher yields in longer-dated government bonds, detracting from returns.

Our broad equity exposures were the main positive contributor this month with the notable exception of UK equities, where currency appreciation weighed on market returns.

Offsetting this somewhat, within fixed income, longer-dated government bond holdings detracted most from returns, while investment grade, higher-yielding credit and emerging market debt delivered small gains.

Total return strategies delivered positive returns, led by gains from option positions aimed at capturing a move higher in certain equity markets. Positions designed to benefit from range-bound market conditions also added to returns with key contributions from Australian and Spanish equity exposures. Against these, returns from relative-value positions were negative, mainly due from UK and German sovereign yield curve flatteners. Elsewhere gains from currency positions designed to benefit from sideways moves in the Swiss franc were largely offset by other positions including those aiming to benefit from a weaker euro.

Returns from real assets were positive led by infrastructure exposures where social infrastructure holdings recovered from the prior month's share-price weakness. Gains in energy, industrial metals and agriculture contributed to positive returns from commodity exposures.

PORTFOLIO ACTIVITY

Against the backdrop of an improving global growth outlook and the de-escalation in trade tensions, we had a high level of activity within total return strategies. This was focussed on maintaining a balance between potential upside participation and lower sensitivity to downside. For example, we added option positions that could benefit from further gains from European, Japanese, US and emerging equity markets. We introduced relative-value positions on the Mexican peso and South African rand and replaced a number of option positions that had expired during the month including downside on European equities. We also added positions that could benefit from range-bound conditions in Korean and European equity markets.

Portfolio exposures to commodities and infrastructure were unchanged over the period, and we maintained the portfolio's overall cyclicality with no material changes to broad equity and fixed income exposures.

Performance as at end October 2019

	1 month return (%)	3 month return (%)	1 year return (%)	3 year return (%p.a.)	5 year return (%p.a.)
IBOF	0.37	1.47	9.36	5.20	4.06
3 month GBP Libid	0.06	0.16	0.70	0.48	0.46

Performance as per calendar year

	YTD (%)	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)
IBOF	10.76	-4.99	10.13	5.05	-1.19	6.40
3 month GBP Libid	0.57	0.60	0.24	0.38	0.45	0.42

Data sourced from Lipper. Returns are in sterling, gross of annual management charge and net of irrecoverable withholding tax and are not grossed up for charges applied to underlying unitised holdings.

Chart 6: Performance of the Insight broad opportunities strategy (GBP) since launch

Source: Insight Investment. As at 31 October 2019. Gross returns. Performance rebased as at 31 December 2004, as a result of a change in investment team leadership. The performance shown is the long-term track record of Insight's overall multi-asset strategy and is intended to illustrate the team's capabilities. The performance of the Insight Broad Opportunities Fund, which launched on 7 September 2009, may differ. The long-term track record of the Insight broad opportunities strategy has a base currency of USD. This has been adjusted by interest rate differentials to derive a GBP proxy. No currency adjustments have been made to the underlying investments.

Selected trades made during the month

Trades put on in the month	Trades expired / closed in the month
Upside positions on US, European, Japanese and emerging equities	Downside positions on US and European equities
Range-bound positions on Korean and European equities	
Relative-value positions on Mexican peso and South African rand	

Source: Insight Investment as at 4 November 2019

ECONOMIC AND MARKET OUTLOOK

ECONOMIC OUTLOOK

As we move into November, the outlook for the global economy looks a little brighter. We've already outlined the positive developments on the trade war that were announced last month. Obviously, these advances could easily be reversed given the nature of the negotiating parties – President Trump appears to like wrong-footing his adversaries, and the Chinese can take a long view/might be prepared to sit things out in the hope that a new president is elected in 2020.

But, as we type, it has just been announced that the US is prepared to remove the 15% tariffs that were placed on $112bn of Chinese goods in mid-September, as a gesture of goodwill. There are, of course, quid pro quos, but there does seem to be a desire to get a deal done this month. (Note: from the US side this appears to, at least in part, reflect the president's acceptance that the economic harm in the US from his tariffs could have a significant negative impact on his chances of re-election).

At the same time, we've seen further signs of improvement and/or stabilisation in the manufacturing PMI for key economies over the last few days – particularly for China and the US (see Chart 7, below). There is still the issue of whether or not the slowdown in manufacturing will have a delayed/lagged impact on service sector activity, and whether or not this might be as sharp as the ISM survey indicates. But our analysis suggests the two sectors decline and fall at roughly the same time, and by roughly the same order of magnitude.

That, plus the fact that the more optimistic survey of US manufacturing from Markit has a better correlation with actual manufacturing output, gives us reason to be optimistic that the worst is probably already behind us as far as US activity is concerned (the better-than-expected labour market release at the start of the month reinforces that view).

On the negative side, there's still a chance the UK will hard-Brexit after the election. The pro-leave Conservative Party have a fairly large lead in the polls and Prime Minister Johnson appears to have a better ranking as a leader than Jeremy Corbyn (the leader of the Labour Party). But the polls have often been wrong in the past.

On polling day, the Conservative Party vote could be split, with some traditional supporters voting for the Liberal Democrats and some for the Brexit Party. Centrist Labour Party supporters who are 'remainers', but concerned about the party's left-leaning economic policies, could also vote for the Liberal Democrats. Many younger voters, who, it is assumed, might previously have voted for Labour to remain within the EU, might instead prefer to vote Green. The list of possible outturns goes on and on.

In our view, it's more or less impossible to predict the outturn. It's true that the risk of a hard/no-deal Brexit has reduced recently, but would that change if the Conservatives were elected with a clear majority in December? Alternatively, a Labour majority might be good for markets in the sense that it prevents Brexit, but what will be made of its policies on corporate taxation, re-nationalisation, etc.? A large number of elected Liberal Democrat MPs could form a coalition with Labour and take the edge off these plans, but in the Conservative-Liberal Democrat coalition a number of traditional Liberal Democrat red lines were ignored when the party was in power (university tuition fees being the key example). Everything will depend on the numbers, with the possibility of a second referendum also coming into play.

Our base-case assumption remains that some sort of Brexit deal will be agreed and passed – either in the form of the existing Johnson agreement or something 'softer' than that.

MARKET OUTLOOK

So with the prospect of a 'Phase 1' trade deal between the US and China offering a window of de-escalation in tension between the super-powers and the likelihood of a hard Brexit receding, at least for now, the investment outlook for the next few months looks brighter than of late.

A further improvement in market sentiment is dependent on two things. Firstly, a broadening in the economic evidence that the weakening in activity witnessed over the last six months or so is starting to abate, and secondly a belief that the rebound in risk assets (and sell-off in government bonds) has yet to adequately reflect a stabilising economic outlook.

The latter point is nuanced, but on the former, the evidence is becoming a little clearer – as noted above, on the economic front, we are seeing signs of optimism. Around 57% of the manufacturing PMIs we track have shown improvements this month. Services softened further and remains a source of concern but overall, the data docket points to stabilisation while our forward-looking growth indicators provide confirmation of this trend. As previously discussed, financial conditions have eased considerably and given the lags involved, that easing might be expected to be reflected in improving economic data around now.

From a risk-asset perspective, our broad equity exposure has fluctuated around the average level we have run in recent years and has recently nudged higher. Our asset-allocation bias is to remain tactical because from a growth perspective, we remain in a fragile environment both in the sense that the recovery signs we are witnessing are tentative and because geopolitical tail risks remain elevated.

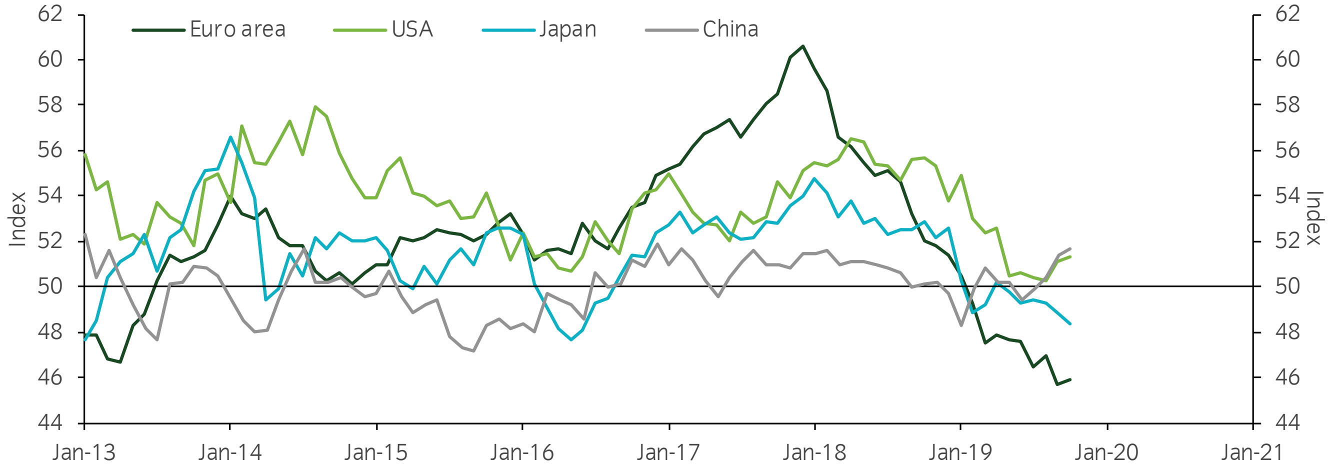
Improving sentiment implies some modest retracement in government yields but this is likely to be tempered by medium-term central bank guidance. Moreover, the lack of inflationary pressure means that government bonds remain, in our minds, an attractive diversifying asset in a portfolio context. We expect the hunt for yield will lead investors towards the riskier end of fixed income. We maintain our above-average exposure in credit, and are likely to continue to do so while growth fears remain contained.

Within real assets, our preference remains infrastructure investments. Specifically, they offer attractive attributes (long-term predictable revenue streams, low levels of economic sensitivity and an element of inflation linkage) that are attractive in their own right and from a portfolio diversification standpoint.

From a portfolio-management perspective we are targeting some asymmetry in our ex-ante return profile. Specifically, we are aiming to keep a reasonable upside beta (relative to global equities) and much lower downside sensitivity albeit in what we would class as normal market conditions. Doing this requires us to be active within our total return strategies. In terms of option strategies, we have positions that offer a high degree of asymmetry, or wide buffers, to help protect against unexpected moves in their underlying markets. In aggregate, we believe they should help us deal with the current period of uncertainty and are broadly positioned for a sideways move in markets.

Elsewhere in total return strategies we have trades spanning a variety of asset classes which we expect to have some embedded diversification. In relative-value positions, we have a range of currency positions (in favour of the yen and the US dollar) and a bias for developed-market equity relative to emerging markets.

Chart 7: Global manufacturing PMIs

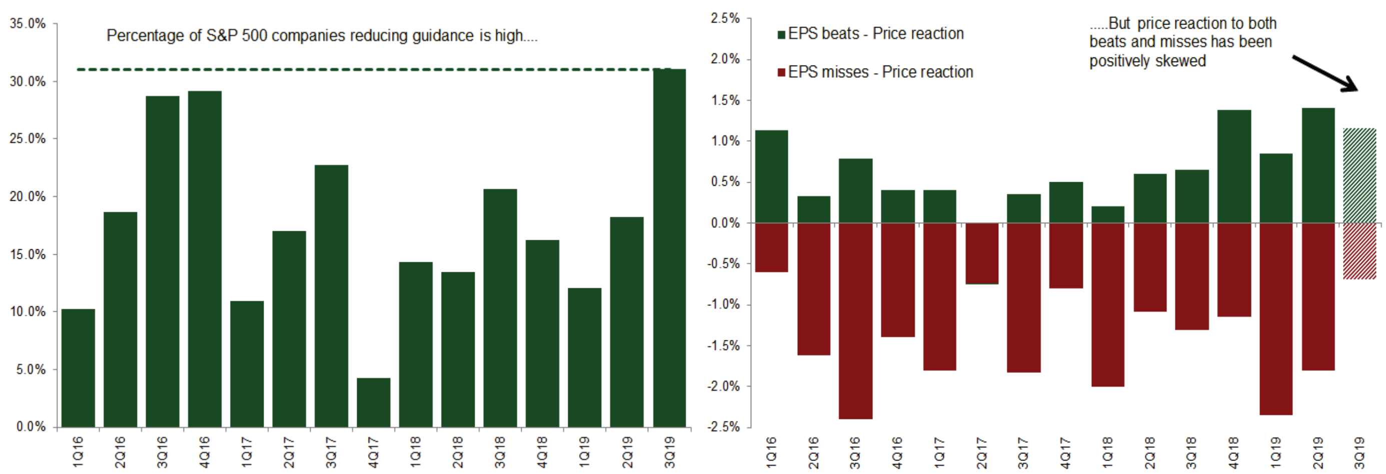


Source: Bloomberg and Insight Investment as at 4 November 2019.

Chart 8: US and China equity trade-war baskets

Source: Bloomberg and Insight Investment as at 4 November 2019.

Chart 9: US companies guided earnings lower but price reaction was positively skewed



Source: J.P. Morgan and Insight Investment as at 4 November 2019.

THE INVESTMENT TEAM

Insight's broad opportunities strategy is managed by a team of 11 dedicated investment professionals. They sit within Insight's investment division which comprises over 200 front-line investment professionals. The team is able to harness investment ideas from all the specialist investment units within the firm ensuring that the strategy benefits from a rich source of investment ideas. The team is specialised in asset allocation, macroeconomic analysis and portfolio construction and has developed a clear and transparent investment process that allows ideas to be channelled into a robust portfolio specifically designed to meet its objectives.

IMPORTANT INFORMATION

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

Multi-asset

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.

Investments in bonds are affected by interest rates and inflation trends which may affect the value of the portfolio.

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.

Property assets are inherently less liquid and more difficult to sell than other assets. The valuation of physical property is a matter of the valuer's judgement rather than fact.

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