Market Update

18th June 2020

Key changes in the portfolios:

- Markets appear to have stabilised since sell-off last week, supporting our decision to proceed with the de-risk across the portfolios to the order of 2 to 3% in equities.
- Reducing emerging market equity exposures and introducing a sustainable investing fund into the portfolio and decreasing the UK passive exposure.
- Increasing US Treasury position for the lower risk models and halving the hedged exposure for the remaining models. The rationale is to gain greater access to the global currency in a sell off.
- We have considered the risk characteristics of the funds in our corporate debt positions and made some changes where expectations weren't realised.

Following their sell-off of last week, equity markets seem to have stabilised and, as of 17th of June 2020, are in positive territory. This has supported our decision to continue to de-risk our portfolios by reducing our exposure to emerging market equities to the order of between two and three per cent. This will enable us to take a position in a fund which has a sustainable investment mandate. This reflects our belief that a new emphasis from governments in the UK and Europe – and in the US, should Joe Biden be successful in the presidential elections – on supporting green infrastructure and on protecting the vulnerable in society will benefit companies and funds which embrace sustainability.

Within our lower risk portfolios, we will be increasing our positions in US Treasuries by 5% while halving the hedged exposure within the remaining portfolios meaning that half will be hedged, while half will take on US currency risk. Market uncertainty is still prevalent, and this step is aimed at giving us the reassurance of greater access to a safe haven currency in the event of a future correction.

We have also re-considered the risk characteristics of our corporate debt positions. Within our lower risk portfolios, we are selling our positions in a fund which had not provided the expected downside protection and was becoming increasingly correlated with the corporate bond market in general. In addition, we are reviewing our holdings in absolute return credit funds. While our return expectations from these funds are modest, their performance displays an unpleasant tendency to falter at the same time as equity markets and therefore do little to mitigate risk. We are also investigating more closely the merits of our emerging market debt position versus high yield debt.

Chris Fleming, Investment Services Director