

# MARKET COMMENTARY NEWSLETTER

Q4 2019

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### New for 2019



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Following requests from a number of Advisers, to better meet the needs of clients who are wary of exposing their capital to high levels of risk, we have added two further investment strategies at the lower end, Conservative & Defensive:

Investment Strategy	Risk Profile	Real Assets/ Higher Risk Range %	Fixed Assets/ Lower Risk Range %	Description
Growth	High	80 - 100	0 - 20	This strategy is designed purely for capital growth and as such returns may be volatile especially in the short term
Balanced Growth	Medium/ High	75 - 95	5 - 25	This strategy prioritises capital growth over income and as such returns may be volatile especially in the short term
Balanced	Medium	65 - 85	15 - 35	This strategy is designed to achieve a balance of income and capital growth over time
Cautious Balanced	Moderate	55 - 75	25 - 45	This strategy is designed to generate an income which can grow modestly in real terms over time whilst retaining the potential for modest capital growth
Cautious	Moderate/ Low	40 - 60	40 - 60	This strategy is designed to produce a reasonably high level of income without unduly restricting the potential for capital growth
Conservative	Low/ Moderate	30 - 50	50 - 70	This strategy seeks to prioritise income over capital growth and as a consequence capital growth is likely to be modest over the longer term
Defensive	Low	20 - 50	50 - 80	This strategy seeks to produce a modest long term real return, from a portfolio with relatively low volatility characteristics.

They aim to deliver modest real returns with lower than average volatility. This is achieved by careful portfolio construction that aims always to include a good spread of lowly correlated assets. We are wary of claiming that this can always be achieved, as we can envisage short periods when the correlations between asset classes coalesce. But over most reasonably long or medium term investment periods, our lower risk Conservative and Defensive strategies can demonstrate returns and volatility characteristics that easily meet their objectives.

A comparison of the simulated three and one year periods to 30 September 2019 neatly demonstrates how this has been achieved. Over three years our Defensive strategy (the lowest risk strategy we offer) produced a total return of 9.3% after fees, with volatility of 3.93% a year and the Conservative strategy delivered a total return of 11.4% after fees, with volatility of 5.19%. In this period, when markets were rising, these returns were the lowest (but most consistently delivered) of the seven strategies we have. But over the one year period to 30 September 2019, when market volatility was unusually high and there was a sharp correction in equity asset prices in the fourth quarter of 2018, the Defensive and Conservative strategies delivered the highest returns of any of our strategies (5.19% and 3.93% respectively) while maintaining low volatility (4.58% and 6.76%). This neatly demonstrates how these strategies can be brought into play as a useful tool for investors who have a relatively cautious outlook.

If you would like to know more about these new strategies, or have particular clients that you wish to discuss, please let us know.

Turn to page 4 for our performance data across all strategies, which includes indicative figures for Conservative and Defensive.

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### Extension Rebellion

For many, many months I have valiantly tried to avoid writing anything substantive on Brexit. This is partly cowardice, as politics is inherently divisive and the rights and wrongs of leaving or remaining have divided the country in a schism more profound than anything in my near 40-year working life. But it's also because Brexit is complicated. There are so many interconnected moving parts that attempting to understand the economic and market implications of political negotiations makes it highly likely that expressing any kind of dogmatic view will result in me being both wrong and appearing stupid. So, on the basis that I have had very little to gain and a lot to lose I have avoided addressing the elephant in the room. It would now appear that times have changed and our minority government has been forced by various opposition factions to go back to Europe and ask for an extension to the terms of Article 50, rather than allow the Prime minister to "die in a ditch". The extension having been granted and with some form of parliamentary consensus taking shape I must bow to the inevitable:

*Dear Elephant,*

*I must apologise, first and foremost, for disregarding your presence for so long. It wasn't that I didn't know you were there (after all you really have made quite an impact over the last three and a half years or so). It was more that, although you have made a massive impact on the UK and Europe, the implications of you having been brought into a state of being have been unclear and I did not know how to address something I didn't and still don't fully understand. Perhaps I have been standing too close to you to see the whole picture but, saving your blushes, you're a pretty big beast and it's been difficult to get far enough away from you to have any kind of objective overview. Not least because our political leaders have also been undecided on how to address you and all the while have been negotiating what kind of pachyderm they want you to be. Rightly or wrongly I will always think of you as a performing circus elephant being made to jump through hoops, brave fire from both sides and to shape shift into something that appears broadly acceptable to as many as possible. You don't need me to tell you that it's been a torrid time. So many unlikely alliances have been made and broken that I sometimes wonder if flux is the only remaining political constant. But now it appears that we may be approaching the end game in the battle to agree a way forward.*

*The circus master in chief has been able to get parliament's agreement to hold a general election, which, in essence, will be a request to ratify the 2016 referendum result. A general election may not be the best way of resolving such a binary issue and it will not repair the divisions within the two major political parties. There is also the risk that when the newly elected MP's are returned to parliament that there is again no commanding majority for the government. This may result in the House of Commons again being split roughly evenly on whether to leave or remain. However, we now know the terms on which we have negotiated to leave the EU and we have agreed a relatively short period in which we can negotiate our longer-term trading relationship with our European neighbours. But, importantly, I don't wish to discuss politics with you or to debate the rights and wrongs of any particular course of action. After all, you're bigger than me and I fear you might squash me if we disagree. Instead, I want to spend some time talking about the economic impact of leaving the EU and the likely effect on stock markets.*

*The first bit is easy; nearly all economists disagree on the quantum of the economic impact of Brexit, but the consensus is that because of the need to renegotiate trading relationships economic growth will be lower for some time than it otherwise would have been. There is also a real concern that, with interest rates having been kept very low for such a long time, future monetary stimulus will be ineffective. Think of this as being analogous to the sugar rush from a can of coke giving you an initial boost when tired. The effect doesn't last long and even though you may begin to crave more sugar to keep you awake, sooner or later you will have to rest. Economists have been searching for the Holy Grail of continuous economic expansion for about as long as politicians (or kings) have been promising the people a better life in the future in exchange for their loyalty now. So, we find ourselves facing a set of circumstances in which growth will be slower than it otherwise would have been and we are also at the end of a long slow growth economic cycle when governments have struggled to keep inflation in positive territory. And furthermore we can't stimulate an anaemic economy by cutting interest rates, because "the drugs don't work" (as Richard Ashcroft sagely opined when singing about macroeconomics on The Verve's third album). However, while cycles may be inevitable and it may be difficult to stimulate growth when interest rates are close to zero and we are already close to full employment with low wage growth, it could be worse. Forecasters tend to agree that we are not about to fall into a deflationary spiral any time soon. And, although many doomsayers may shout about the "Japanification" of the western world cursing us with a prolonged period of low growth and zero interest rates until we export all our old people to developing nations with better demographics in order to improve the dependency ratio, the reality is more benign.*

*After so much uncertainty Sterling remains cheap against both the US\$ and the € making our exports relatively good value abroad. Although the impact of a cheap currency is rather less in a service economy than in a manufacturing one, it does also mean that imports will be relatively expensive, so we may have*

to think twice before splashing out on inessential imported fripperies. This may make it feel as though we are living in a re-run of the 1950's, when we exported everything we could and consumed very little of what we made, but that was a period of relative stability. And perhaps we need some stability after 10 years of unorthodox monetary economics and Brexit to boot.

But most important is the outlook for markets and investment. I have written before about how markets dislike uncertainty and also about how under owned UK stocks are by international investors. Well, the good news is that just recently, when the political ducks started to line up in something that looked vaguely like a row, the domestically focussed FTSE 250 index shot up, because it was relatively cheap and under owned and foreign investors feared being left out of the fun. Consider also the huge valuation gap between "growth" and "value" stocks and you can take comfort that September's value rally could deliver substantial future returns to investors as the gap between low priced value and high priced growth stocks gradually closes. We also think that a rotation from high multiple bond proxies, trading on extended PEG ratios, into value oriented plays is likely to deliver good results for our investors.

Although there may be further episodes of heightened market volatility, we believe there are still good returns to be made from remaining invested with a bias to UK value stocks. Now is a time to remain calm and be prepared to act quickly if needed. So finally, my dear elephant, with an election planned for 12 December, when you place your cross against the name of your preferred candidate think yourself lucky that you are not a turkey.

I'm glad that I eventually plucked up the courage to address you directly and I hope you agree that what I have said is objective. However, please forgive me for saying that I hope that ours will not become a long lasting correspondence. Indeed, my fervent hope is that we need never exchange a letter like this again. I hope you understand that my wish to put you behind me is not personal, but should we find ourselves revisiting old arguments I know that an elephant never forgets.

Yours truly

Glenn



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### AIM / IHT Portfolio Service update

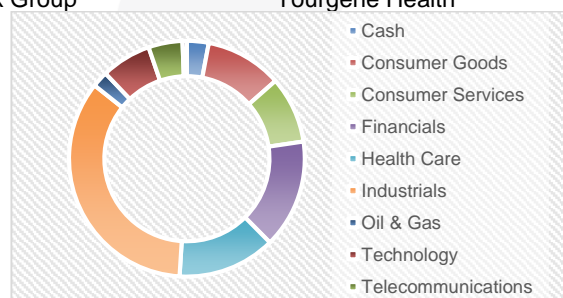
We have made a number of additions to the portfolio recently. Renalytix AI, IMImobile and Equals Group all raised fresh capital for expansion purposes. Renalytix AI is an exciting company developing early stage detection of kidney cancer using artificial intelligence. IMImobile is a cloud software business and Equals Group a challenger in the financial services sector. Brickability, the leading supplier of bricks to UK housebuilders, was purchased at IPO. Morses Club, a non-standard lending company, was purchased at a discounted price from Woodford Investment Management as they sought to liquidate investments for their suspended fund. Codemasters was also re-introduced to the portfolio following a discounted sell down by private equity. Underperformers Fulcrum Utility and Shearwater were sold along with Venture Life where we realised profits.

This is an example of the holdings in a client portfolio as at 30<sup>th</sup> September 2019 (exact current stock selection and sector weightings for a new client portfolio may be different from this illustration):

Angling Direct	Codemasters	Impax Asset Management	Premier Asset Management Group
Applegreen	Creo Medical Group	Johnson Service Group	RBG Group
ASOS Ord	Diaceutics	Joules Group	Renalytix AI
Blue Prism Group	Equals Group	Knights Group	Savannah Petroleum
Breedon Group	Fevertree Drinks	Kromek Group	Strix Group
Brickability	Gamma Communications	Marlowe	The SimplyBiz Group
Brooks Macdonald Group	Gateley Holdings	Midwich Group	Watkin Jones
Centralnic Group	IG Design Group	Morses Club	Young & Co Brewery
Clinigen Group	IMImobile	Park Group	Yourgene Health

By sector:

Cash	3.0%
Consumer Goods	10.6%
Consumer Services	9.2%
Financials	15.0%
Health Care	13.5%
Industrials	34.9%
Oil & Gas	2.2%
Technology	6.9%
Telecommunications	4.7%



## How we have performed (as at 30<sup>th</sup> September 2019)

As mentioned on page 1, we have calculated some indicative numbers (after fees) for the two new risk strategies of Defensive and Conservative. We have also calculated the 'year on year' numbers for our existing strategies, to provide better context for the usual rolling year figures.

### RCBIM PERFORMANCE DATA SHOWN IS CALCULATED AFTER ALL FEES / COSTS

MANAGED FUNDS PORTFOLIOS					
Risk category	Portfolio	YTD	12mths	3 Years	5 Years
Defensive*	RCBIM Managed Funds	8.5%	4.1%	9.3%	24.5%
	ARC £ Cautious	7.5%	3.7%	9.1%	17.3%
Conservative*	RCBIM Managed Funds	9.9%	2.9%	11.4%	26.4%
	ARC £ Balanced	10.6%	4.1%	14.0%	26.4%
* Data for Defensive & Conservative strategies is indicative only and was obtained from FE Analytics					
Cautious	RCBIM Managed Funds	9.8%	1.8%	11.1%	29.2%
	ARC £ Balanced	10.6%	4.1%	14.0%	26.4%
Cautious	RCBIM Managed Funds	11.1%	1.1%	15.2%	35.7%
	ARC £ Balanced	10.6%	4.1%	14.0%	26.4%
Balanced	RCBIM Managed Funds	12.5%	1.1%	18.0%	40.4%
	ARC £ Steady Growth	13.4%	4.8%	19.8%	36.7%
Balanced	RCBIM Managed Funds	13.8%	1.1%	19.7%	44.0%
	ARC £ Steady Growth	13.4%	4.8%	19.8%	36.7%
Growth	RCBIM Managed Funds	14.0%	1.0%	21.3%	46.5%
	ARC £ Equity Risk	15.9%	5.2%	24.1%	43.1%

DIRECT EQUITY PORTFOLIOS					
Risk category	Portfolio	YTD	12mths	3 Years	5 Years
Conservative*	RCBIM Direct Equity	9.9%	2.9%	11.4%	26.4%
	ARC £ Balanced	10.6%	4.1%	14.0%	26.4%
* Data for the Conservative strategy is indicative only and was obtained from FE Analytics					
Cautious	RCBIM Direct Equity	8.8%	2.5%	9.3%	26.4%
	ARC £ Balanced	10.6%	4.1%	14.0%	26.4%
Cautious	RCBIM Direct Equity	10.6%	2.3%	14.0%	35.1%
	ARC £ Balanced	10.6%	4.1%	14.0%	26.4%
Balanced	RCBIM Direct Equity	11.7%	2.0%	16.1%	37.5%
	ARC £ Steady Growth	13.4%	4.8%	19.8%	36.7%
Balanced	RCBIM Direct Equity	12.5%	2.0%	17.7%	40.8%
	ARC £ Steady Growth	13.4%	4.8%	19.8%	36.7%
Growth	RCBIM Direct Equity	12.9%	1.9%	20.5%	n/a
	ARC £ Equity Risk	15.9%	5.2%	24.1%	43.1%

AIM / IHT PORTFOLIOS				
	3mths	6mths	12mths	Since inception
RCBIM AIM / IHT Investment Service	-2.85%	1.31%	-13.01%	-1.30%
FTSE AIM All Share TR Index	-4.74%	-3.99%	-19.38%	-15.85%

The RCBIM AIM / IHT Investment Service was created on 1st May 2018, so historic data is limited to that time period only

### YEAR BY YEAR PERFORMANCE ANALYSIS

MANAGED FUNDS PORTFOLIOS										
Risk category	Portfolio	YTD	2018	2017	2016	2015	2014	2013	2012	2011
Defensive*	RCBIM Managed Funds									
	ARC £ Cautious									
Conservative*	RCBIM Managed Funds									
	ARC £ Balanced									
* Data for Defensive & Conservative strategies is not yet available as they were only launched in Sept 2019										
Cautious	RCBIM Managed Funds	9.8%	-7.2%	9.0%	7.2%	4.2%	4.9%	14.3%	9.3%	n/a
	ARC £ Balanced	10.6%	-5.1%	6.7%	8.6%	1.9%	4.5%	9.2%	7.7%	-2.9%
Cautious	RCBIM Managed Funds	11.1%	-7.6%	11.2%	9.3%	4.8%	4.2%	17.9%	10.5%	-1.2%
	ARC £ Balanced	10.6%	-5.1%	6.7%	8.6%	1.9%	4.5%	9.2%	7.7%	-2.9%
Balanced	RCBIM Managed Funds	12.5%	-8.8%	12.5%	11.0%	5.1%	3.2%	19.5%	10.8%	-3.2%
	ARC £ Steady Growth	13.4%	-5.6%	9.4%	11.6%	2.3%	4.7%	12.5%	8.9%	-4.2%
Balanced	RCBIM Managed Funds	13.8%	-9.8%	14.0%	11.6%	5.5%	2.6%	21.7%	11.7%	-5.1%
	ARC £ Steady Growth	13.4%	-5.6%	9.4%	11.6%	2.3%	4.7%	12.5%	8.9%	-4.2%
Growth	RCBIM Managed Funds	14.0%	-10.2%	14.8%	12.9%	5.9%	2.3%	22.7%	10.2%	-7.6%
	ARC £ Equity Risk	15.9%	-6.5%	11.4%	13.7%	2.1%	4.1%	16.1%	10.1%	-5.9%
* Data for Defensive & Conservative strategies is not yet available as they were only launched in Sept 2019										
DIRECT EQUITY PORTFOLIOS										
Risk category	Portfolio	YTD	2018	2017	2016	2015	2014	2013	2012	2011
Conservative*	RCBIM Direct Equity									
	ARC £ Balanced									
* Data for Defensive & Conservative strategies is not yet available as they were only launched in Sept 2019										
Cautious	RCBIM Direct Equity	8.8%	-7.0%	7.3%	10.0%	1.3%	5.6%	13.5%	9.4%	n/a
	ARC £ Balanced	10.6%	-5.1%	6.7%	8.6%	1.9%	4.5%	9.2%	7.7%	-2.9%
Cautious	RCBIM Direct Equity	10.6%	-7.9%	9.8%	13.6%	1.9%	4.8%	17.7%	9.8%	-2.7%
	ARC £ Balanced	10.6%	-5.1%	6.7%	8.6%	1.9%	4.5%	9.2%	7.7%	-2.9%
Balanced	RCBIM Direct Equity	11.7%	-8.4%	11.0%	15.4%	2.2%	3.6%	19.6%	10.1%	-4.4%
	ARC £ Steady Growth	13.4%	-5.6%	9.4%	11.6%	2.3%	4.7%	12.5%	8.9%	-4.2%
Balanced	RCBIM Direct Equity	12.5%	-9.2%	11.9%	16.3%	2.3%	3.1%	20.5%	10.0%	-6.8%
	ARC £ Steady Growth	13.4%	-5.6%	9.4%	11.6%	2.3%	4.7%	12.5%	8.9%	-4.2%
Growth	RCBIM Direct Equity	12.9%	-9.2%	12.8%	16.0%	2.6%	3.6%	n/a	n/a	n/a
	ARC £ Equity Risk	15.9%	-6.5%	11.4%	13.7%	2.1%	4.1%	16.1%	10.1%	-5.9%

The data shown above are the annualised returns (1st January to 31st December) after fees / costs

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