Monthly Strategy Review | December 2020

A year that vindicates active management as a tool to manage portfolio strategies, limit downside and monitor overall performance variability

The premise underpinning the MFP strategies center on providing an active management service that manages single-fund exposure, as well as, the overall asset allocation. Effectively, this is a streamlined service similar to a discretionary portfolio management service which is usually only available to high net worth investors. In view of this, MFP investors benefit from a professional team which is focused on optimizing the overall composition of each strategy. The aim is to enhance returns, whilst at the same time reducing volatility in returns. In the field of finance, the quintessential focus relates to the inter-relationship between investment returns and risk. Investment returns are mostly explained by the risks borne by investors making them dependent on each other. Investors tend to focus on returns, however, neglecting the underlying price volatility for an investment strategy. During 2020, our team focused on delivering satisfactory returns, albeit ensuring a reasonable level of risk in line with market and economic conditions. The added value principally resides on providing timely and rational decision making for every MFP strategy. In times of distress as exemplified in 2020, markets tend to sway away from efficiency, in that, fundamentally sound investments are oversold which provides opportunities for long term investors. This was the thesis during the course of 2020 for the overall management conducted throughout all three strategies.

December continued to build-on momentum as the vaccine approval took center stage

Following the groundbreaking news that a vaccine was developed by Pfizer/BioNTech and Moderna, medical authorities in developed nations congregated to provide a swift approval to these vaccines. It must be said that this vaccine development has culminated years of scientific research that made a-never-seen before leap in medical advancement. Simply put, these vaccines would not have been possible in the past. This all transcended into a market environment which shifted its focus from 2020 cash flow generation towards a heavier weighting into future cash flows. The two core components for the subsequent market stability following the March 2020 shock were; 1) Unprecedented economic policy intervention (both fiscal and monetary); and; 2) a high probability of successfully developing a timely vaccine. These two key factors provided the basis for the H2 2020 asset class performance. Despite the conventional tools used to calm market agitation; policy makers have shown that they learned from past policy mistakes and effectively implemented counter-cyclical measures to sustain economic activity.

All asset classes performed positively for the month under review with riskier assets outperforming less-risky assets. The medical approval and rollout in vaccine programme buoyed equity investors in Europe and the US as this provided a sense of reassurance, albeit confirming expectations that have been overdue since the end of September 2020. On a yearly basis, our conviction towards the US proved fruitful as the S&P 500 Index outperformed the Euro Stoxx 50 by around 11% on a constant currency basis. Yields in both the investment grade and high yield space continued to gravitate lower. The search for income in credit markets has evaporated; following central bank intervention to depress rates in order to compensate for the rise in overall debt levels. This meant that governments and fundamentally sound companies have raised capital at cheap levels in order to contain the servicing

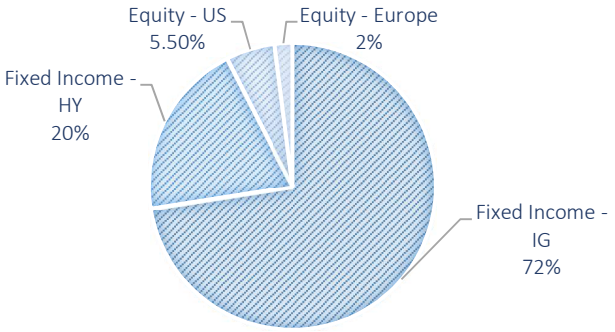
cost and ensure economic sustainability in the medium to long term. Negative yielding debt continued to rise sharply hitting the €14.5 tn mark by the end of the year. A generic look into European high yield debt shows that the weighted average debt yield to maturity sits firmly at 2.90%. This significantly diverges from the high yield rates available back in March 2020 which reached a peak close to 9%. The subsequent lowering in yields following direct policy intervention resulted in significant capital gains on debt securities. The pocket of opportunity for the month of December in the High Yield environment stemmed from the lower end of the quality spectrum in the CCC segment of the market. This explains the risk-on environment observed during the period. The upbeat news on the vaccine continued to weigh negatively on the greenback as it weakened by circa 2.4% against the Euro during the month of December 2020.

Outlook for 2021

The theme for 2020 was mostly related to a protracted event risk in which market dynamics changed unexpectedly and viciously. The outlook for 2021 is expected to be less volatile when compared to the extreme gyrations experienced during 2020. Market stability will hinge upon the following key factors; 1) Continued support from policy makers as companies transition from government-driven financial assistance to financial autonomy; 2) A smooth rollout in vaccinating key nations by mid-2021; 3) No significant virus mutation that may undermine the efficacy of the vaccine's immune response; 4) The velocity in the economic recovery will be of great focus for the year as that will instigate changes in asset allocation for each strategy; and 5) Focus on potential global opportunities as geopolitical forces shift capital flows.

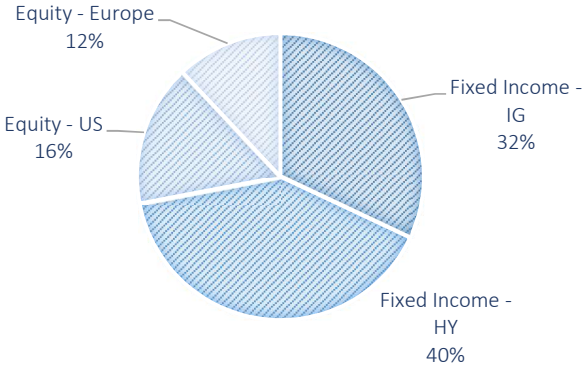
Strategy Snapshot

Asset Allocation | Conservative Strategy



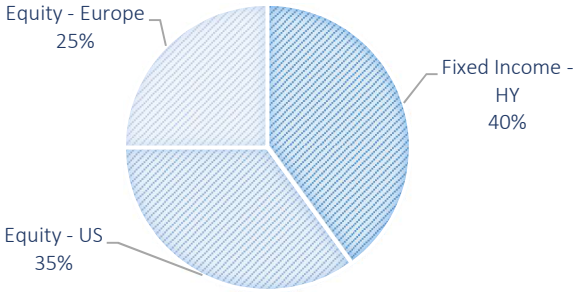
Current Distribution Yield: 1.49%*
Fixed Income Duration: 5.37*

Asset Allocation | Balanced Strategy



Current Distribution Yield: 2.20%*
Fixed Income Duration: 4.37*

Asset Allocation | Growth Strategy



Fixed Income Duration: 2.80*

** All figures quoted are as at 31st December, 2020*

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