R.C. BROWN
investment management plc

MARKET COMMENTARY NEWSLETTER

Q3 2020

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New for 2020

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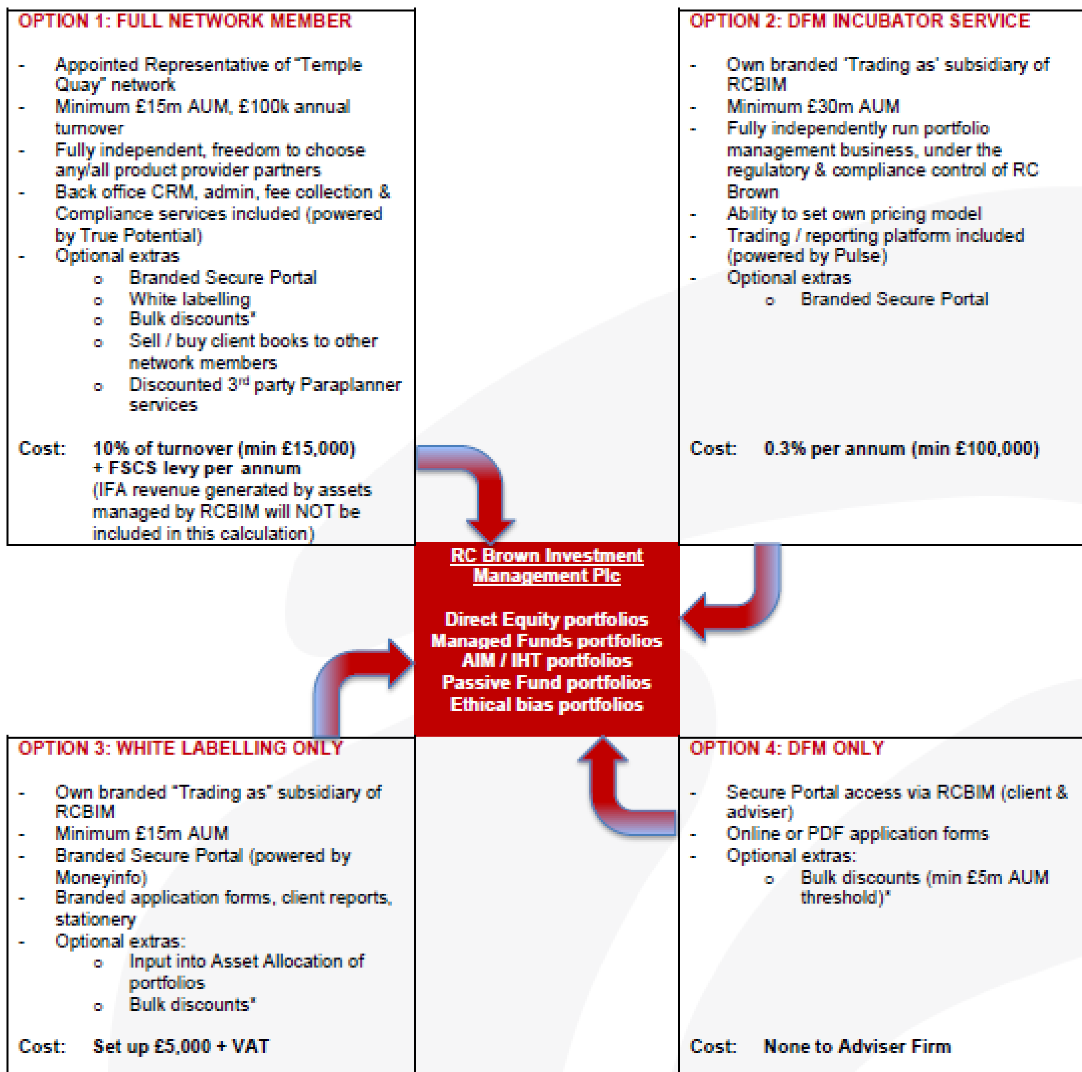
Without wanting to labour the point, we do hope that you have successfully come through the disruption and challenges of recent months.

As you may have seen in the financial press in recent weeks, we have been working on expanding our proposition for financial advice firms, to now include a new network and white labelling options. These are not a knee-jerk reaction to COVID-19, and were already in the planning phase at the beginning of 2020, but the world we are all now operating in has allowed us to accelerate the pace of diversification within our own business.



***Bulk Discounts**

The following discounted 'Conventional Fee' scale, based on average client portfolio value, will apply to all clients:

£10m+	0.40%
£5m - £10m	0.50%
£1m - £5m	0.60%
£0.5m - £1m	0.70%
£100k - £500k	0.80%
£50k - £100k	1.00%

New for 2020 continued………

At the centre of everything we do is still discretionary portfolio management. Our aim with creating the network is to provide an entity where advisers will all use the same tech-led systems, and have brought in carefully selected expertise rather than reinvent the wheel, so everyone benefits from consistency and economies of scale.

This also means that firms can network with others within the group knowing that many of the hurdles of transferring business have been removed, with the added advantage that clients are familiar with systems. We are offering a range of options to cater for advisers across the spectrum but anticipate that these services should particularly suit newer or smaller IFAs (as we offer a safe environment with additional structure and support where all the systems are in one place) or those who are eyeing retirement and would like to put their house in order and then perhaps forge links with like-minded firms with compatible systems etc.

If you would like to know more about any of our services, please contact either Robert or Wayne, who emailed you with the link to this newsletter.

The World According to Glenn………….

Glenn Meyer
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In normal times I have a normal routine of work rest and play (just like a Mars bar advert). In normal times I enjoy meeting new people (but now, just like Alceste, Moliere's antihero in The Misanthrope) I have been made to "break with the whole human race", and in normal times the summer holiday period gives me time away from all that is normal and presents an opportunity for some free range thinking and reading learned tomes that I would not normally have time to immerse myself in. But these aren't normal times. And you hardly need me to tell you that.

My summer holiday this year consisted of a micro break in a Shepherd's hut that we could have walked to from home. It was utterly idyllic and bang on trend (which is me all over, not) but in the short time we were away I don't think I managed to read anything more taxing than the label on a wine bottle. I did however look up at the sky, and in the day I saw Red Kites soaring effortlessly, and at night I saw the stars and the universe expanding, and I thought. Not deep thoughts you understand, I'll leave that to IBM if you're into chess or The Hitchhikers Guide to the Galaxy if you're not. And anyway we already know that the answer to "What's the meaning of life, the universe and everything?" is 42, which incidentally is the height in inches of the standard Victorian saloon bar counter. A perfect height for resting your elbow when putting the world to rights over a beer with a friend after work, but standing at a bar is now verboten, so I tried not to think about that for too long. But I found I just couldn't help myself and I did think about inflation, its causes, its effects and its control.

I'm not much of a Monetarist but I do like to think that in his work on The Quantity Theory of Money Milton Friedman owes a debt to people with very different ideas on political economy, by borrowing ideas from Karl Marx, John Stuart Mill and perhaps most strangely of all from Nicolaus Copernicus (who not only put the Sun at the centre of the known universe but as long ago as 1517 derived an early model for the Quantity Theory when he observed that prices tended to rise following the import of gold from the New World). Friedman's aphorism that "inflation is always, and everywhere, a monetary phenomenon" seemed a good starting point when thinking that if a whole shedload of dosh has been pumped into people's pockets to stimulate the economy, why haven't prices gone up?

The short answer to this is that we have had a simultaneous demand shock and supply shock in which people haven't been allowed out and consumed less when staying at home and, as they also haven't been allowed to go to work, less stuff was produced by the economy as a whole. This initial phase is now beginning to end and we are being encouraged to return to work (rather than working from home) and to go out and spend. Alongside this the huge support packages put in place by governments around the world are gradually being wound down and Treasury ministers are looking at ways of getting back at least some of the money they pumped into the global economy. As a result of the withdrawal of support packages economic forecasters now expect some businesses to go bust and unemployment to rise at the same time that surviving businesses put up prices and the government wants its money back. This potentially raises the spectre of an economic phenomenon not seen since the 1970's and one which governments will work extremely hard to avoid. I speak, of course, about stagflation. A term coined by a Brit and sometime Tory Chancellor of the Exchequer, Ian Macleod, who conflated the terms stagnation and inflation to describe a genuine economic horror story; a situation where there is low growth, high unemployment and rising prices. This could be the situation we might find ourselves in if we do not have some adroit pulling on the levers that control the economy. It is a global risk and it must be said it is not the central case scenario because so much has been learned about economic management since the 1970's but, just for fun (economics is not called the dismal science for nothing) let's consider the UK's position.

Government borrowing has ballooned to a little more than £2tn (which is a lot), but more importantly we currently owe more than the annual value of all the goods and services we produce (which is a concern). The more than £200bn borrowed by the government since April has almost certainly saved us from a much worse economic fate, so hurrah for Rishi and let's all save up and build a statue of him to go on the fourth plinth in Trafalgar Square in place of the fly blown giant ice cream that's there at the moment. But even though this extra borrowing has been relatively affordable because current interest rates are so low (below the rate of inflation) and because the Debt Management Office has done a sterling job at lengthening the term of our national debt when rates are low, there is no guarantee that economic repression can keep rates negative in perpetuity. Because of this risk the chancellor recently warned that the difficult outlook for public finances would limit how much the government could keep borrowing and spending and that we must return our public finances to a sustainable footing. A situation he said "which will require taking difficult decisions". In other words, we are going to be asked to do our bit and pay more in taxes to repay the largesse from which we have just benefitted. However, tax increases are inflationary because they push up prices. In normal times raising taxes might be a perfectly reasonable thing to do, but as I wrote earlier these

The World According to Glenn continued………….

aren't normal times and this cost push inflation leads to a slowing of economic activity. For some years UK wage growth has been low, largely because productivity growth has been low and, although unemployment has similarly been low the quality of many jobs is often low with no guaranteed working hours. I have previously written how these circumstances have led to a breakdown in the Phillips Curve (the inverse relationship between inflation and unemployment), but it is possible now to paint a scenario in which prices have to rise in order to fund the high fixed costs of being in business, poorly funded businesses go bust because they don't have the reserves to sustain themselves on the lower turnover forced on them from operating at reduced capacity because of Covid restrictions (which raises the numbers of unemployed) and at the same time those in work (and who are just managing to make ends meet) could demand more pay in order to maintain their current standard of living after paying higher taxes. In other words, the perfect storm that could result in stagflation.

Those of us who are considerably older than Rishi Sunak remember Paul Volker's painful but effective solution to stagflation when he was chairman of the Fed. His approach was to raise interest rates to eye watering levels and keep them there until price rises were squeezed out of the system. The collateral damage was persistently high unemployment, which constrained demand and reduced capacity. Logic would suggest that we do not yet need such a policy response to our current economic woes, as prices are stable and inflation is stubbornly staying below target. But in a year or so's time, when higher taxes are beginning to bite and the year on year comparisons with the lockdown period show big rises in the price of oil for example, supply side solutions (such as deregulation post Brexit) may be needed to boost the aggregate levels of goods and services available. These may need some time to take effect, however, we should, yet again, ask ourselves why it is that long running monetary stimulus has so far failed to raise prices.

Well, I suppose the answer to the question "why haven't prices gone up" was pretty obvious, and Moliere led me to it, and it's because, just like Alceste, we have all been made "to break with the whole human race" while we have been locked down in our bunkers to avoid catching *the virus.* For a few months earlier this year the velocity of circulation of money didn't just slow, it ossified. If we don't go out and start spending soon ossification may turn to petrification and stone me I'm just not going to let that happen. We need to get back on a growth path and match growing demand with increasing capacity. I'm doing my bit for the economy and tonight I'm going out to a "good" restaurant with friends where, at a suitable social distance, we shall each consume something close to our body weight in delights from the tasting menu. I urge you to do the same, spend what you can afford and don't worry about sclerotic arteries. Ossification of the economy is much worse. Be brave and take one for the team, you know it makes sense.

PS: If you are concerned about the health risks of too much rich food, research has recently shown that green veg, particularly brassicas such as cabbage and broccoli, can help guard against heart attacks by reducing calcium deposition in the aorta. So, live life on the edge; eat veg!

AIM / IHT Portfolio Service update

Oliver Brown
Investment Director
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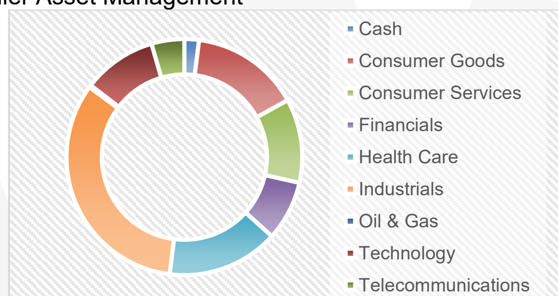
As poor a period as Q1 was for the AIM market, Q2 saw the index roar back as hopes of a swift economic rebound fuelled the market. Some of the largest constituents of the market proving particularly strong as Boohoo doubled and Asos trebled in value. Whilst we had some exposure to both stocks, we were underweight relative to their large composition of the AIM index. We continue to see a large number of companies raise money to shore up their balance sheets and provide capital for expansion. Our primary opportunities approach allows us to participate in many of these opportunities at what we believe are attractive valuations. Scapa, Dart Group, Open Orphan, Avacta and Anexo were all added to the portfolio as part of fund raisings. We also added to holdings in Diaceutics and Essensys. Positions in underperformers Applegreen and RBG group were exited. Diversified Gas & Oil was also sold as it moved its listing to the main market.

This is an example of the holdings in a client portfolio as at 30th June 2020 (exact current stock selection and sector weightings for a new client portfolio may be different from this illustration):

Anexo
Avacta
ASOS
Blue Prism
Breedon
Brickability
Brooks Macdonald
Centralnic
Clinigen
Codemasters
Creo Medical
Dart Group
Diaceutics
Essensys
FRP Advisory
Gamma Communications
Gateley Holdings
Hotel Chocolat
IG Design
IMImobile
Impax Asset Management
Johnson Service Group
Knights
Marlowe
Midwich
MJ Hudson
Premier Asset Management
Renalytix AI
Sigmaroc
Strix Group
The SimplyBiz Group
Team17
Watkin Jones
Young & Co Brewery
Yourgene Health

By sector:

Sector	Weight
Cash	2.0%
Consumer Goods	15.0%
Consumer Services	11.5%
Financials	8.2%
Health Care	15.3%
Industrials	33.1%
Oil & Gas	0.3%
Technology	10.1%
Telecommunications	4.5%



How we have performed (as at 30th June 2020)

During the quarter we saw sharp recoveries across all portfolios, with many demonstrating double digit total returns, however there remains work to be done in order to fully recover the weakness seen in the first quarter. Over the year to date there has been a huge dispersion of returns across the various global equity markets, with for example the S&P 500 up by 8.6% (31/12/2019 to 26/8/2020, total return in dollars) while the FTSE All Share fell by 17.7% over the same period. This discrepancy in performance is unprecedented and has been the prime cause of our underperformance as our portfolios have a bias towards the UK equity market, based on our belief that clients who are domiciled in the UK should not expose themselves to undue currency risk by having the majority of their assets outside the UK. Experience has shown that these huge differences in performance between world equity markets rarely persist for anything other than a short period of time and the reversion to mean can be just as pronounced.

As highlighted in our reports to clients, once we were able to make a rational assessment of the economic and market impact of action taken to control the spread of the virus we made considered changes to the asset allocation to reflect the risks and opportunities going forward. We were keen to ensure that, although volatility may be elevated for some time to come, we were not inadvertently increasing the chance of clients suffering a permanent loss of capital from increased exposure to businesses where lack of cash flow and weak balance sheets raised the risk of corporate failure. We also looked at identifying where sustainable opportunities to benefit from the recovery may lie and then acted promptly to implement revisions to portfolios. One example of this is an incremental move to increase the exposure to overseas equities, in particular the US. This was predominantly through the addition of a holding in the Baillie Gifford American fund, which has already contributed strongly to the portfolios' performance, returning over 40% since purchase in April. A similar addition to Asia Pacific equity exposure, through the Invesco Asian fund, has also contributed well to the portfolios' recovery.

While we have reduced the bias to the UK market within the portfolios' equity exposure, this does remain our preferred area. We feel the valuation discount UK equities offer versus peers such as the US is stark and so is already reflective of uncertainty around issues such as the ongoing Brexit negotiations. Another important factor is the currency, with sterling weakness/dollar strength being a significant tailwind for investors in recent years. Interestingly the direction of travel here has reversed in recent months, with the pound some 8% stronger relative to the dollar since May. This will of course be reflected immediately in any US equity holdings and highlights the risk taken with a minimal exposure to sterling assets.

RCBIM PERFORMANCE DATA SHOWN IS CALCULATED AFTER ALL FEES / COSTS

MANAGED FUNDS PORTFOLIOS

Risk category	Portfolio	Last 3mths	YTD	12mths	3 Years	5 Years
Defensive*	RCBIM Managed Funds	n/a	-5.1%	-1.7%	2.3%	16.3%
	ARC £ Cautious	n/a	0.0%	0.0%	0.0%	0.0%
Conservative*	RCBIM Managed Funds	n/a	-11.0%	-6.1%	-2.5%	10.6%
	ARC £ Balanced	n/a	-3.3%	-0.3%	5.5%	18.6%
	* Data for Defensive & Conservative strategies is indicative only and was obatined from FE Analytics					
Cautious	RCBIM Managed Funds	9.2%	-8.3%	-4.3%	-1.4%	10.6%
	ARC £ Balanced	8.6%	-3.3%	-0.3%	5.5%	18.6%
Cautious Balanced	RCBIM Managed Funds	11.0%	-9.9%	-5.2%	-1.5%	15.4%
	ARC £ Balanced	8.6%	-3.3%	-0.3%	5.5%	18.6%
Balanced	RCBIM Managed Funds	12.3%	-11.5%	-6.3%	-1.6%	18.4%
	ARC £ Steady Growth	10.9%	-5.1%	-1.3%	7.2%	25.7%
Balanced Growth	RCBIM Managed Funds	13.3%	-12.0%	-6.8%	-1.7%	18.5%
	ARC £ Steady Growth	10.9%	-5.1%	-1.3%	7.2%	25.7%
Growth	RCBIM Managed Funds	14.3%	-12.5%	-7.0%	-1.4%	23.3%
	ARC £ Equity Risk	13.0%	-6.6%	-2.2%	8.2%	30.4%

DIRECT EQUITY PORTFOLIOS

Risk category	Portfolio		YTD	12mths	3 Years	5 Years
Conservative*	RCBIM Direct Equity	n/a	-11.0%	-6.1%	-2.5%	10.6%
	ARC £ Balanced	n/a	-3.3%	-0.3%	5.5%	18.6%
	* Data for the Conservative strategy is indicative only and was obatined from FE Analytics					
Cautious	RCBIM Direct Equity	8.6%	-7.4%	-3.6%	-1.4%	13.5%
	ARC £ Balanced	8.6%	-3.3%	-0.3%	5.5%	18.6%
Cautious Balanced	RCBIM Direct Equity	10.1%	-8.6%	-4.9%	-1.5%	18.7%
	ARC £ Balanced	8.6%	-3.3%	-0.3%	5.5%	18.6%
Balanced	RCBIM Direct Equity	11.3%	10.0%	-5.7%	-1.6%	20.2%
	ARC £ Steady Growth	10.9%	-5.1%	-1.3%	7.2%	25.7%
Balanced Growth	RCBIM Direct Equity	12.5%	-10.9%	-6.3%	-1.8%	21.3%
	ARC £ Steady Growth	10.9%	-5.1%	-1.3%	7.2%	25.7%
Growth	RCBIM Direct Equity	13.4%	-10.7%	-6.4%	-1.4%	n/a
	ARC £ Equity Risk	13.0%	-6.6%	-2.2%	8.2%	30.4%

AIM / IHT PORTFOLIOS

	3mths	6mths	12mths	Since inception
RCBIM AIM / IHT Investment Service	21.13%	-9.86%	-0.66%	0.92%
FTSE AIM All Share TR Index	29.74%	-7.41%	-2.78%	-14.11%

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	2019	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	-8.3%	12.6%	-7.8%	8.5%	6.6%	3.7%	4.4%	13.7%	8.7%	n/a
	ARC £ Balanced	-3.3%	11.3%	-5.1%	6.7%	8.6%	1.9%	4.5%	9.2%	7.7%	-2.9%
Cautious Balanced	RCBIM Managed Funds	-9.9%	14.3%	-8.1%	10.6%	8.9%	4.2%	3.7%	17.3%	10.1%	-2.8%
	ARC £ Balanced	-3.3%	11.3%	-5.1%	6.7%	8.6%	1.9%	4.5%	9.2%	7.7%	-2.9%
Balanced	RCBIM Managed Funds	-11.5%	16.4%	-9.7%	12.4%	10.6%	4.5%	2.6%	18.9%	10.3%	-3.8%
	ARC £ Steady Growth	-5.1%	14.4%	-5.6%	9.4%	11.6%	2.3%	4.7%	12.5%	8.9%	-4.2%
Balanced Growth	RCBIM Managed Funds	-12.0%	18.5%	-10.3%	13.5%	11.1%	5.0%	2.1%	21.1%	11.2%	-5.6%
	ARC £ Steady Growth	-5.1%	14.4%	-5.6%	9.4%	11.6%	2.3%	4.7%	12.5%	8.9%	-4.2%
Growth	RCBIM Managed Funds	-12.5%	18.7%	-10.8%	14.2%	12.4%	5.3%	1.8%	22.1%	9.7%	-8.2%
	ARC £ Equity Risk	-6.6%	17.3%	-6.5%	11.4%	13.7%	2.1%	4.1%	16.1%	10.1%	-5.9%

DIRECT EQUITY PORTFOLIOS

Risk category	Portfolio	YTD	2019	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	-7.4%	10.9%	-7.0%	7.3%	10.0%	1.3%	5.6%	13.5%	9.4%	n/a
	ARC £ Balanced	-3.3%	11.3%	-5.1%	6.7%	8.6%	1.9%	4.5%	9.2%	7.7%	-2.9%
Cautious Balanced	RCBIM Direct Equity	-8.6%	13.2%	-8.0%	9.6%	13.6%	1.8%	4.7%	17.7%	9.8%	-2.7%
	ARC £ Balanced	-3.3%	11.3%	-5.1%	6.7%	8.6%	1.9%	4.5%	9.2%	7.7%	-2.9%
Balanced	RCBIM Direct Equity	10.0%	14.7%	-8.6%	10.4%	15.4%	2.2%	3.6%	19.6%	10.1%	-4.4%
	ARC £ Steady Growth	-5.1%	14.4%	-5.6%	9.4%	11.6%	2.3%	4.7%	12.5%	8.9%	-4.2%
Balanced Growth	RCBIM Direct Equity	-10.9%	16.1%	-9.2%	11.9%	16.3%	2.3%	3.1%	20.6%	10.0%	-6.8%
	ARC £ Steady Growth	-5.1%	14.4%	-5.6%	9.4%	11.6%	2.3%	4.7%	12.5%	8.9%	-4.2%
Growth	RCBIM Direct Equity	-10.7%	16.8%	-8.9%	12.8%	16.0%	2.6%	3.6%	n/a	n/a	n/a
	ARC £ Equity Risk	-6.6%	17.3%	-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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