R.C. BROWN
investment management plc

MARKET COMMENTARY NEWSLETTER

Q1 2021

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New for 2021

Alan Beaney
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Happy New Year?? After what was a tumultuous year on many fronts (COVID-19, US Elections, Brexit Trade Deal) we sincerely hope that 2021 brings a new hope. The need for portfolio diversification has not been stronger, so following a specific request from an Adviser Firm, we have created an additional range of portfolios that have greater exposure to overseas markets. We have called these new portfolios our “Overseas Focused” range. Our existing portfolios are now called our “Core” range.

We are not ditching our existing philosophy and management style of being UK biased, and will continue to create portfolios in the same way we have done for the past 10 years in our “Core” range, we are just making an alternative strategy available to those who prefer more overseas exposure.

The Asset Allocation model for the **RCBIM Core portfolios** is:

Asset Class	Defensive	Conservative	Cautious	Cautious Balanced	Balanced	Balanced Growth	Growth
UK Equities	0-50%	30-50%	30-60%	30-70%	35-80%	35-85%	35-85%
Overseas Equities	0-20%	0-20%	0-20%	5-40%	5-45%	5-50%	10-60%
Alternatives	0-25%	0-25%	0-25%	0-25%	0-25%	0-25%	0-25%
Commodities	0-10%	0-10%	0-10%	0-15%	0-15%	0-15%	0-20%
Property	0-10%	0-10%	0-10%	0-15%	5-15%	5-15%	5-20%
Fixed Interest	40-70%	40-70%	30-60%	20-45%	5-35%	0-25%	0-20%
Cash	0-25%	0-10%	0-10%	0-10%	0-10%	0-10%	0-10%

The key difference between the two is asset allocation, with the majority of underlying holdings being the same, which will make it easy for any existing clients who wish to transition to the new “Overseas Focused” range. Our fees are the same whichever strategy you choose, with no additional transaction charges to worry about.

The Asset Allocation model for the **RCBIM Overseas Focused portfolios** is:

Asset Class	Defensive	Conservative	Cautious	Cautious Balanced	Balanced	Balanced Growth	Growth
UK Equities	0-20%	0-20%	0-20%	5-30%	5-30%	5-35%	10-45%
Overseas Equities	10-50%	20-50%	30-60%	30-70%	35-80%	35-85%	35-85%
Alternatives	0-25%	0-25%	0-25%	0-25%	0-25%	0-25%	0-25%
Commodities	0-10%	0-10%	0-10%	0-15%	0-15%	0-15%	0-20%
Property	0-10%	0-10%	0-10%	0-15%	0-15%	0-15%	0-20%
Fixed Interest	40-70%	40-70%	30-60%	20-45%	5-35%	0-25%	0-20%
Cash	0-25%	0-10%	0-10%	0-10%	0-10%	0-10%	0-10%

If you would like more information, or to discuss a specific client, please let us know.

The World According to Glenn…………

Glenn Meyer
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There's No Place Like Home

As Dorothy said at the end of The Wizard of Oz "there's no place like home". All she had to do to get back (wasn't that The Beatles, I think it was the final track on the final album "Let it Be"? but that's a different story) was to click the heels of her ruby slippers three times and say "There's no place like home" and home she went.

She was taken to Munchkin Land and travelled to the Emerald City because of some localised volatility back home. When she got there she found that much of what she saw was a sham created by the wizard who, by his own admission, saw himself to be a good man but a bad wizard. Despite his shortcomings there seemed to be no end of unlikely characters travelling the Yellow Brick Road in search of what they already had. Until recently (I can pinpoint it to the day the Pfizer BioNTech vaccine was approved) many UK based investors could also be heard singing "We're off to see the wizard…" when in search of higher returns with lower risk. Well, even the Wicked Witch of the West will tell you that you can't have both of those on a sustainable basis. But now there seems to be a bit of a storm blowing through the Emerald City and I wonder how long it will be before advisers start singing "get back to where you once belonged" and start repatriating overseas investments to the UK.

Not only does the world now have a number of effective vaccines to fight Covid 19, but with one minute to midnight (or so it seemed) the UK managed to reach an agreement with the EU on our future terms of trade. It is by no means a good deal (nothing was agreed on financial services for example) and I'm pretty sure that in time both sides will seek revisions that will improve it, but it lays down a base on which to build. On top of this the US has a new president who also has control of both houses of Congress. In normal times this could lead to concern of unfettered spending from a Democrat president but in the new normal American political leaders appear to have read and (partially) adopted the central message of Stephanie Kelton's book "The Deficit Myth". It's a good read that tells us that deficits can strengthen economies and lead to faster growth but it lacks the magical realism of L Frank Baum's original rendering of "The Wonderful Wizard of Oz". Anyway, putting literary criticism aside, the US Fed seems to be OK with the idea that some inflation is OK and there is no need to get all heavy and raise interest rates until inflation has been running at above the target 2% for some time. Now, despite everything else seeming to be topsy turvey in the land of macroeconomics, it still seems to be accepted wisdom that low interest rates allow for high equity multiples. However, with many growth equities already trading at multiples that imply straight line growth forever, if you want to benefit from multiple expansion in the new normal it may be sensible to look close to home.

Because of seemingly endless political failings over Brexit and because the UK market is stuffed full of early cycle value stocks the domestic market lagged tech heavy markets such as the US until vaccines started popping up like mushrooms in autumn. With just one vaccine approval the mood music began to change and November was one of the best months ever for clients of RC Brown Investment Management. And it didn't end in November. Q4 of 2020 was a time of rejoicing for our clients who benefitted from significant outperformance of the benchmark for all our UK biased investment strategies. But the best news is we've only just begun and it looks to me as though we are on the cusp of a new economic cycle. Come what may, Brexit is now history. Future students will be asked to study it in the way I was once asked to study the Schleswig-Holstein Question, of which the only thing I remember is the quotation from Lord Palmerston, who modestly claimed "Only three people understood it: The Price Consort, who is dead; a German professor, who has gone mad, and me. And I've forgotten all about it". To the generations of future students, doomed forever to study "Brexit, its causes and effects", you have my deepest sympathy. But for now, hoorah, I can stop reading Michael Rosen and Helen Oxenbury's children's classic "We're going on a bear hunt" and start giving vent to my inner Tommy Steele by singing "Little White Bull". I promise to give you plenty of time to reach for your ear defenders before turning the amp up to 11, but believe me or believe Sam Cooke "A change is gonna come" and markets will rise ahead of the upturn in the economic cycle. We have had a foretaste of this at the start of the year when the FTSE100 went up by 6% in a week. Some of this was down to year end asset allocation changes being actioned in thin markets, but the valuation discount of the UK market to other major developed markets is so great that for the UK to be fairly valued in the context of good corporate balance sheet strength and earnings growth forecasts there is much more to play for. I don't pretend that it will be all plain sailing and it is likely that there will be periods of considerable volatility but now is the time to back the domestic market.

Within equities, the already highly valued areas of technology and healthcare are likely to give up market leadership to early cycle industries, including energy and industrial materials (despite possibly incurring the opprobrium of the green lobby). And "value" as a style is likely to return to favour because, having rebuilt balance sheets and cut dividends, lowly rated "value" plays with strong balance sheets are going to be well placed to grow earnings and dividends from a new base where dividend cover is much more sustainable. With a move into equities from bonds there is also room for multiple expansion in lowly rated areas of the market. In terms of geographical plays, the highly valued US equity market is expected to see leadership rotate away from tech plays into domestic cyclicals and the dollar may fall as those who fled to the safety of the green back in times of crisis begin to look for new opportunities.

The World According to Glenn continued………….

This will ease the strain on emerging market borrowers with dollar liabilities, but the biggest winners are likely to be unloved areas such as Japan, Europe and the UK which will get the biggest boost from any returning international demand for shares.

So, “Goodbye Yellow Brick Road” (where the dogs of the stock market howl), the conditions are right for recovery and we are well placed for client portfolios to benefit. However, please be assured, despite the hyperbole of my vaccine infused enthusiasm for the next bull market I will always recognise that markets do not go up in a straight line and there will always be a need for checks and balances. Our client portfolios remain properly constructed with a broad spread of drivers of return. We will continue our longstanding policy of taking profits from areas of relative outperformance to reinvest in relative underperformers with sound fundamentals.

AIM / IHT Portfolio Service update

Oliver Brown
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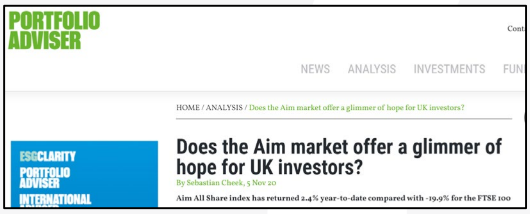
The AIM market enjoyed an exceptionally strong end to the year as positive vaccine news and hopes of further monetary stimulus by central banks, spurred the market higher. The AIM market was a beneficial place to invest in 2020 as it ended the year with excellent returns, particularly compared with the FTSE All share which fell 9.8% in the year. The AIM market is an exciting place for investors right now as many of these smaller, more nimble companies, have the opportunity to benefit from the change of living and working that has occurred as a result of the pandemic. Our primary opportunities process helps provide the equity investment required to pursue this growth. We took profits in Avacta and sold underperformers Brickability and Clinigen. In a busy period for fund raisings, Accrol, a tissue and toilet roll manufacturer and hydrogen battery storage company ITM Power, were added to the portfolio at the time of their fund raisings. Pharmaceutical companies Venture Life and SourceBio International were also added. IMImobile and Codemasters both rose sharply following takeover approaches and will shortly exit our portfolios.

With the AIM market having celebrated its 25th birthday last year, both it and we have been getting some good media coverage:

Click on the video image below to see a recent interview with the Wealth Club, where I explain what our AIM / IHT Portfolio Service is and how we manage those portfolios

I also contributed to a Portfolio Adviser article, focusing on the investment outlook of the AIM market, click on the image below



The historic performance (after fees) of the **RCBIM AIM / IHT Investment Service** to 31st December 2020 was:

	Last Quarter	**1 Year**	**Since inception 1st May 2018**
RCBIM AIM / IHT Investment Service	25.34%	17.50%	31.56%
FTSE AIM All Share TR Index	20.87%	21.74%	12.93%

How we have performed (as at 31st December 2020)

The historic performance (after fees) of the RCBIM Core portfolios, across the 7 risk profiles, to 31st Dec 2020 was:

Risk Category	Portfolio	Last Quarter	1 year	3 years	5 years
Defensive*	RCBIM Managed Funds	6.52%	3.48%	9.55%	29.00%
	RCBIM Direct Equity	n/a	n/a	n/a	n/a
	ARC £ Cautious	3.72%	4.42%	8.73%	19.87%
Conservative*	RCBIM Managed Funds	8.51%	0.52%	6.70%	27.53%
	RCBIM Direct Equity	n/a	n/a	n/a	n/a
	ARC £ Cautious	3.72%	4.42%	8.73%	19.87%
Cautious	RCBIM Managed Funds	8.55%	-0.79%	2.85%	19.53%
	RCBIM Direct Equity	9.07%	0.36%	3.59%	23.19%
	ARC £ Cautious	3.72%	4.42%	8.73%	19.87%
Cautious Balanced	RCBIM Managed Funds	10.10%	-0.10%	4.40%	27.30%
	RCBIM Direct Equity	10.73%	0.97%	5.00%	31.37%
	ARC £ Balanced	5.93%	4.84%	11.17%	28.85%
Balanced	RCBIM Managed Funds	11.65%	-0.10%	5.49%	32.39%
	RCBIM Direct Equity	12.26%	0.97%	5.68%	34.80%
	ARC £ Steady Growth	7.52%	4.85%	13.77%	38.87%
Balanced Growth	RCBIM Managed Funds	12.87%	0.71%	6.53%	35.89%
	RCBIM Direct Equity	13.34%	1.75%	6.98%	40.78%
	ARC £ Steady Growth	7.52%	4.85%	13.77%	38.87%
Growth	RCBIM Managed Funds	13.25%	1.63%	7.84%	42.93%
	RCBIM Direct Equity	14.20%	2.80%	8.90%	n/a
	ARC £ Equity Risk	8.90%	5.21%	16.12%	47.11%

All correspondence to Head Office

(* Data for Defensive & Conservative strategies is indicative only and was obtained from FE Analytics)

The historic performance (after fees) of the RCBIM Overseas Focused portfolios, across the 7 risk profiles, to 31st Dec 2020 was:

Risk Category	Portfolio	Last quarter	1 year	3 years	5 years
Defensive	RCBIM Managed Funds	5.58%	23.70%	39.08%	61.73%
	ARC £ Cautious	3.72%	4.42%	8.73%	19.87%
Conservative	RCBIM Managed Funds	7.30%	25.36%	42.47%	72.78%
	ARC £ Cautious	3.72%	4.42%	8.73%	19.87%
Cautious	RCBIM Managed Funds	8.60%	26.54%	45.01%	81.87%
	ARC £ Cautious	3.72%	4.42%	8.73%	19.87%
Cautious Balanced	RCBIM Managed Funds	10.36%	28.61%	48.93%	95.74%
	ARC £ Balanced	5.93%	4.84%	11.17%	28.85%
Balanced	RCBIM Managed Funds	11.10%	29.45%	50.54%	101.94%
	ARC £ Steady Growth	7.52%	4.85%	13.77%	38.87%
Balanced Growth	RCBIM Managed Funds	12.02%	30.23%	52.33%	109.99%
	ARC £ Steady Growth	7.52%	4.85%	13.77%	38.87%
Growth	RCBIM Managed Funds	12.58%	30.86%	53.56%	115.21%
	ARC £ Equity Risk	8.90%	5.21%	16.12%	47.11%

(All data for RCBIM Overseas Focused strategies is indicative only and was obtained from FE Analytics)

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