MESSAGE FROM THE CEO

UK Clients: Global Exposure and Benchmarks

Looking at how far we have come since 2008 and the financial crisis, is nothing short of jaw dropping. Despite this being touted as the most "hated bull market in history", the gains in core markets have been extraordinary since the crisis lows of 2008/2009. The S&P 500 has outperformed the FTSE 100, but for the first time we are now seeing real synchronised global growth with a) trade between emerging markets nearly doubling since 2008, and b) investment flows into the G20 double what they were before the financial crisis.

The world is booming. So much so, that today's global supply chain employs 1 out of every 5 jobs in the world, with this growth only set to increase. It is frightening to consider China has 430 million middle class citizens. That's 100 million more middle class consumers than the entire population of the US. By 2020, the Chinese middle class population is estimated to total some 780 million people.

It is relatively easy to extrapolate the business potential from this Asian consumer over the next decade, and the global investment market gives us thousands of opportunities to capture these growth figures, mostly driven by the US. We all learned at an early age that, from a risk perspective, it's safer to spread one's investment risk over a basket of global opportunities, which helps increase the level of diversification away from any single part of the market, currency or country.

It is our belief that portfolio management in this current market is not about just going for growth - we are not in that environment anymore. The goal here is as much about the end return target as it is about the journey clients travel to reach it. It takes nearly 40 years to save up a pension pot and we as investors don't want to be up at 4am worrying if our nest egg is taking a hammering every time President Trump takes to Twitter. What we seek is a smooth journey when it comes to managing client wealth and it's just plain common sense to diversify your investment portfolio if you want to reach that end goal with your nerves in one piece.

Now, when we talk about our global portfolios it's also prudent and demanded that we compare and contrast. To do that we need a relevant "benchmark". A benchmark is a yardstick for comparison and NOT an expectation. In this instance, for UK clients or those invested in pounds, the benchmark TAM uses for its equity component of risk is the FTSE All Share which simply consists of every stock in the UK equity market.

With that said, it's no surprise that our portfolio of equity investments, which include global exposure, can often behave very differently to a benchmark of solely UK investments. To illustrate, the FTSE All share rallied over 11% between March and May this year (a strong positive outperformance against nearly all global markets) and as a result, unless our portfolio is similarly invested entirely into the UK market, it's not going to keep up with the benchmark.

Now, longer term one might argue that if the UK benchmark consistently outperforms international investments, then our vision of a global portfolio outperforming a UK centric one was a bad call. But that's not the case, and we urge you to look at the results; TAM's global investment approach, since inception, has outperformed its UK centric benchmark with lower headline risk, whilst managing to protect client capital in over 80% of down market months for the benchmark.

We had a few questions put to TAM in this exceptional March to May rally, as to why we were behind the benchmarks. We pointed out, that the short-term uptick in UK equities remained speculative in nature and would likely not last. Indeed, that has been the case and the phenomena reversed during May to July, with global portfolios outperforming those more UK centric ones. This reversal has ensured we are in line with, or above, our benchmarks this year to date.

Recently, we have seen a lot of focus in the press highlighting how "funds" have generically been very poor underperformers in the first 7 months of 2018. Specifically, an FT Adviser article dated 21st August 2018 drawing attention to the fact that the number of underperforming funds has now hit a record high.

The message in 2018 for clients concerned about investment returns, is that any underperformance in the short-term against a UK benchmark is not because a globally diversified portfolio has begun to deteriorate in quality, but rather more likely that an index of UK stocks has for any number of reasons succumbed to short-term positivity.

The US is the driver of the world's economy and will remain so, and to contemplate the US financial markets declining whilst the UK is rising, is not going to happen on any long-term basis. This is not a vote against UK companies, just a statement on 50 years of financial history.

2018 may be a year of lean pickings and is already witness to the underperformance of many mainstream managers. The fact we continue to invest in global opportunities over UK specific ones is not a vote against the UK, but with such unprecedented expansion happening on the global stage, limiting our UK clients to a UK only portfolio seems somewhat short sighted when one considers the overseas opportunity.

In conclusion, TAM has this year continued to keep pace with our UK benchmark, and remains unaffected by the article from the FT Adviser regarding the number of underperforming funds hitting record highs. We remain confident that our globally diversified investment strategy remains the correct strategy.

TAM ASSET MANAGEMENT

City Tower, 40 Basinghall Street, London, EC2V 5DE | +44 (0) 207 549 7650 | info@tamassetmanagement.com | www.tamassetmanagement.com