AUBREY CAPITAL MANAGEMENT

Cornerstone Quarterly Review
Q4 2019

Cornerstone Asset Management

For authorised intermediaries and professional investors only

LATEST COMMENTARY

During Q4, the MSCI All World index rose by 0.43% and FTSE all-share by 4.16%; over 12 months their respective returns have been 22.69%% and 19.17% (source: Aubrey Capital/Bloomberg Data 31/12/2019). The past year has been a curious one with significant equity market strength in the first half capturing headlines but largely representing a reversal of the falls in Q4 2018. The summer was quite flat with a modest pickup in asset prices during what is traditionally a quiet period, the market adage to sell in May and go away is often correct and certainly was this year. The fourth-quarter saw markets picking up despite continuing weakness in global PMI data, largely on renewed hopes that the United States and China would at least come to some trade agreement even if this was a limited 'Phase 1' to take pressure off China as they look to continue to deal with domestic debt issues and the US where President Trump and Republicans and gearing up for the Presidential and Senate elections in November.

2018 equity returns were built on margin expansion with limited earnings growth and, therefore, one would look for some improvement in earnings outlook this year to support valuations. Various parts of the market look cheap, such as telecoms, commodities and banks, but these are all areas which are structurally challenged. Given heightened uncertainties and increased investor focus on sustainable investments, we struggle to see the catalyst for investors to embrace these sort of 'value' areas and believe that quality long term growth, while more expensive, remains the best long-term option for investors.

Within markets we still remain with a strong conviction over the long term strength of the US economy and the companies within it, supported by an entrepreneurial mindset and access to venture capital which far outstrips Europe – where there are good companies but we can only see structural issues growing, not reducing, over time. Trump remains likely to win a second term, but the election may prompt greater volatility in certain US sectors such as healthcare and potentially 'big tech' where, clearly, they are making enormous profits

The general election has paved the way for a Brexit agreement to be signed and supported better relative performance from UK equities in the later stages of the year, however the implementation of a deadline for agreeing a trade deal has increased the risks that Britain leaves without this in place, creating a potentially binary outlook for the UK market.

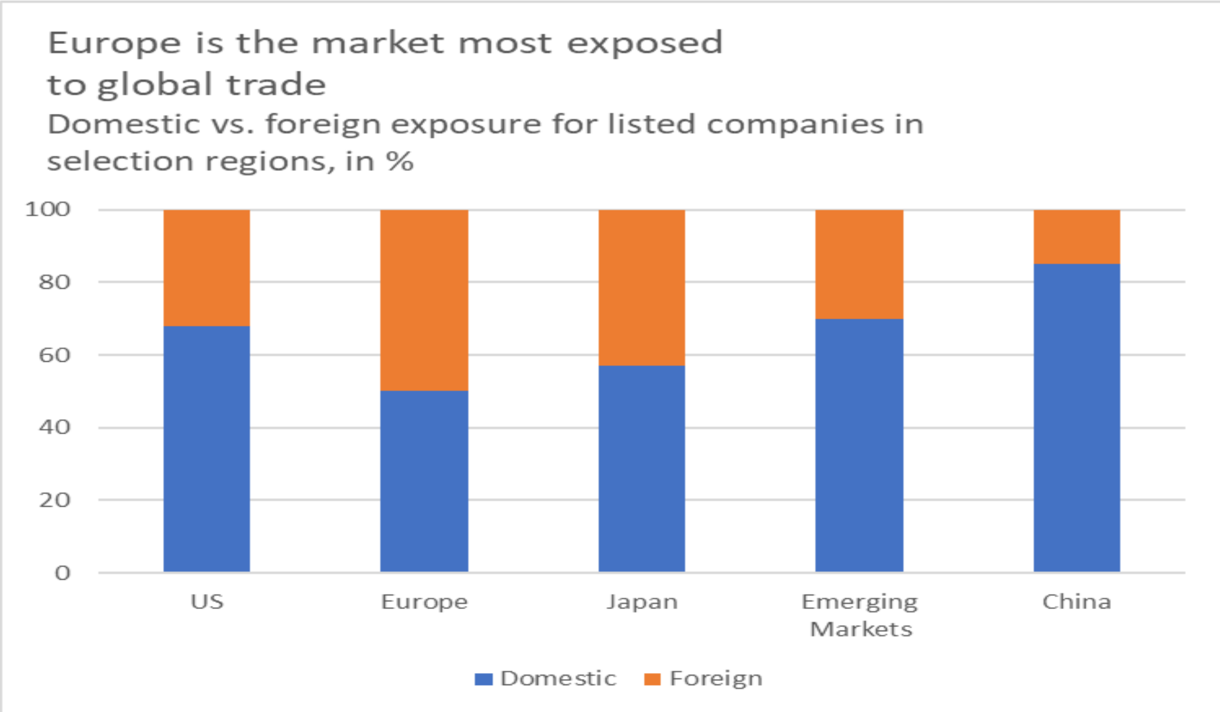
END OF QUARTER ASSET ALLOCATION (%)

	UK Equities	US Equities	Europe (ex UK) Equities	Japanese Equities	Asian Equities	Other Overseas Eq.	Infastrucutre/Property	Alternative Assets	Bonds	Cash
MAP 1	1	3	1	0	1	1.5	2.5	7.5	45	37.5
MAP 2	2.5	8	2	1	2.5	4	5	12.5	40	22.5
MAP 3	5	18	5.5	3.5	6	7	5	10	27	13
MAP 4	6	22	7.5	4.5	7	8	5	10	24	6
MAP 5	7	28	9.5	5	10	10.5	3	10	13	4
MAP 6	9	34	11	6	12	13	0	10	3	2

Green	Allocation change	> 2% in quarter
Red	Allocation change	< 2% over quarter

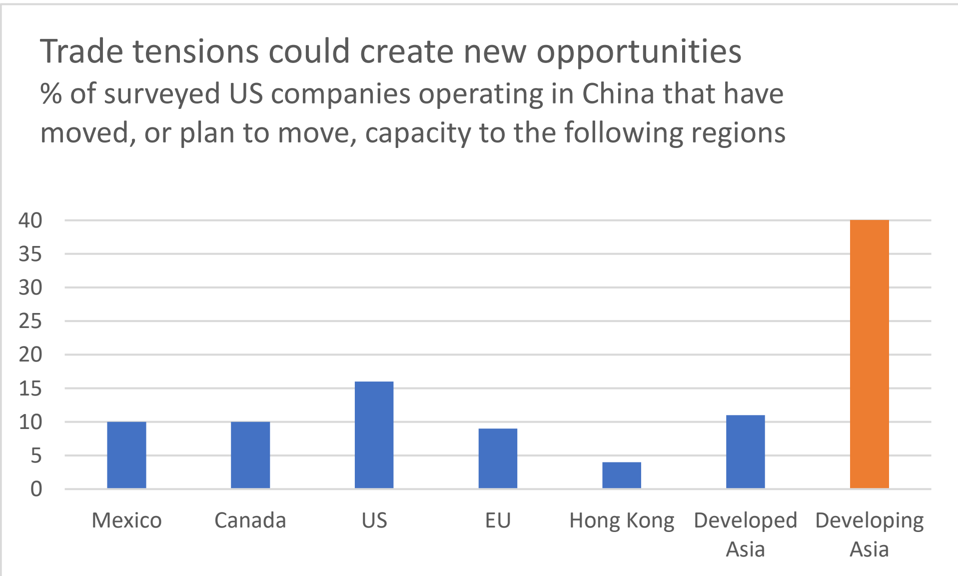
Source: Aubrey Capital Management, 31/12/2019

The Trade Dispute is Important



Source: Morgan Stanley, as of 30 May 2019

But also Creates Opportunities



Source: American Chamber of Commerce China, 2019 China Business Climate Survey, as at 16 December 2018

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MODEL PERFORMANCE* (%)

	Quarter	1 Year	Inception	Benchmark Quarter	Benchmark 1 Year	Inception	Benchmark
MAP 1	0.54	9.74	7.59	0.25	2.32	4.09	CPI plus 1%
MAP 2	0.86	12.13	9.03	0.49	3.33	5.64	CPI plus 2%
MAP 3	1.25	14.48	10.11	0.74	4.34	7.19	CPI plus 3%
MAP 4	1.44	16.14	10.75	0.98	5.35	8.75	CPI plus 4%
MAP 5	1.70	18.40	11.75	1.22	6.36	10.32	CPI plus 5%
MAP 6	2.00	20.18	12.37	1.46	7.37	11.89	CPI plus 6%

TOP & BOTTOM PERFORMANCE CONTRIBUTORS* (Q4 2019)

	Top	Bottom
MAP 1	Vanguard FTSE 250 ETF	iShares World Min Volatility
MAP 2	Vanguard FTSE 250 ETF	iShares World Min Volatility
MAP 3	Vanguard FTSE 250 ETF	iShares World Min Volatility
MAP 4	Vanguard FTSE 250 ETF	iShares World Min Volatility
MAP 5	Vanguard FTSE 250 ETF	iShares World Min Volatility
MAP 6	Vanguard FTSE 250 ETF	iShares World Min Volatility

*Source: Aubrey Capital Management 31/12/2019

OUTLOOK

We remain of the view that equities are likely to outperform fixed income in 2020. Undoubtedly the chances of better returns, relative to Wall Street, from markets in Europe, Emerging Economies and Japan, would increase if a trade deal is agreed between China and the US. Inflation remains weak globally, with any push from oil prices as a result of tensions in the Middle East likely to be transitory. Central banks remain supportive of global GDP growth which, while expected to be lower than 2019, should still reach 3%. Earnings expectations are muted giving room for positive surprises. There seems little change of a US recession where the economy continues to add jobs at a solid rate despite an unemployment rate at 50-year lows.

IMPORTANT INFORMATION

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