

Current Focus

July 2021

A monthly market comment from Rivers Capital Management. Views expressed here are subject to change and for professional advisors only



Market Comment

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Summary

- Rivers portfolios reach 5 year anniversary of launch in 2016
- The growth portfolios provided higher risk adjusted returns than most listed alternatives
- The success has more to do with portfolio construction than tactical positioning
- Diversifiers have added value but are expected to become essential in coming years
- Diversified, actively managed strategies will add more value in next 5 years than the last 5

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The end of June marked 5 years since Rivers launched its risk rated Model Portfolios. While the scope since then has widened to include offshore and ESG portfolios (June 2017), as well as a number of tailored solutions, the investment process has changed little since launch. Our objective then was, and still remains, to build portfolios using sets of diversified funds, combining both passive and active strategies. The process includes the tactical adjustment of those portfolios to align with the relative attractiveness of the investment market. This is done according to our Risk Committee who agree a relative Risk Level to which the portfolios are aligned.

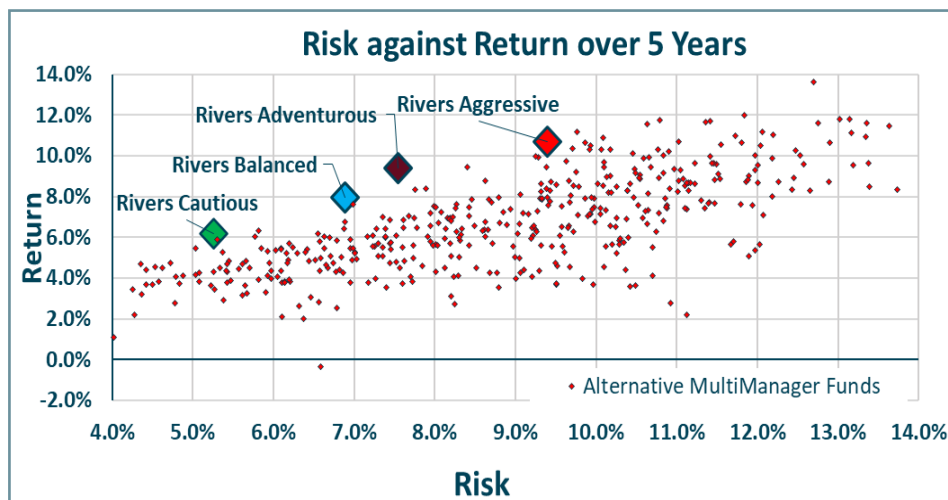
Given this 5 year anniversary, in this Focus piece we look back on the relative performance of that investment strategy. We are delighted to report that all portfolio targets have been met in terms of both risk and return. We are perhaps even more delighted to report that, on a risk adjusted basis, we can show that these unbundled model portfolios have outperformed very nearly every listed multimanager fund solution available, after all costs. Alongside this delight however we want to focus on how this performance was achieved, particularly given that, over 5 years of generally positive asset class value growth, the Risk Committee has maintained, for the large part, an underweight risk allocation. For much of the last five years the Risk Committee has held, and currently hold, a belief that asset valuations are unsustainably high.

We have always tried to take a global view on investment. Since our first Risk Committee meeting in 2016, in the aftermath of the

UK Referendum which led to Brexit, we've tried to view the investment portfolios within the global context. The election of President Trump, whatever our views on him personally, was always likely to influence global economic growth more than Brexit. Despite Trump's issues with China they affected asset prices less than we expected. His domestic policies, especially on tax, boosted the profitability of US companies, and equity markets, more than we expected. Similarly the Federal Reserve, raising rates in late 2018, impacted asset prices less than we expected, and cutting rates so quickly, in early 2020, with the backing of aggressive fiscal intervention, boosted valuations for longer than we had expected. Our risk committee was correctly positioned for all of these calls but we were often too early in and often out too soon. Sometimes both. Tactical changes have added to our performance. Adding risk during the falls of late 2018 and early 2020 has added value, but it is difficult to conclude that a generally underweight risk position over the last five years will have added value.

Objectively speaking the ability to add risk when it gets cheaper has added value, occasionally a lot, but that is not the biggest contributor to the success of the portfolios we manage. It has been diversification that have been key to the portfolio success at Rivers. By specifically including Diversifiers into the portfolio allocation, which are investments with a low correlation to equity and Interest rate risks, it has been possible to add value overall while reducing losses during the few market falls that the markets have experienced.

The last 5 years, really the last 12 years,



*Source: FE Analytics - Risk measured as standard deviation
Annualised risk and return between June 30th 2016 and June 30th 2021

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Portfolio is not suitable for all types of investor and investor accounts may only be attached to it by the instruction of a professional Financial Adviser. Past performance is not necessarily a guide to the future performance. Market movements may cause the value of investments and the income from them to fall as well as rise. Unless otherwise

stated, the source of all figures contained herein is Rivers Capital Management. Whilst all reasonable care has been taken in preparing this update, the information contained herein has been obtained from sources that we consider reliable but we do not represent that it is complete or accurate and it should not be relied upon as such.

have been a time when a simple investment strategy of buying equity risk and adding interest rate risk (to lower overall risk) should have been successful. Over that period Equity indices have seen valuations increase to an astonishing degree. Mega-cap stocks have outperformed and interest rates, have gone from low to non-existent or even negative. In such an environment, adding value as active fund managers has been difficult. The only way to keep up has been market timing, which is difficult, or by the use of efficient portfolio construction. The fact that the Rivers portfolios have not only kept up with but exceeded, on a risk adjusted basis, all the multimanager funds available, passive or active, is primarily a

result of efficient portfolio construction. With the wonderful benefit of hindsight it is fair to say the portfolios' tactical positioning, while having allowed the adding of risk during market sell offs, has not taken full advantage of the opportunity.

As always with investment the tide will eventually change. Price earnings multiples will not rise forever, inflation and interest rates will rise. We are not suggesting any of these economic certainties will make it easier for Rivers portfolios to perform but we do think it will make it harder for passive, market capitalisation led strategies to do well. The lack of risk Diversifiers will make portfolio performance more difficult.

If, as we currently believe, the US market reaches a level beyond which even the most optimistic investor asks questions and this is followed by a period of multiple "re-rating" then a pure equity and bond market approach is likely to struggle. A diversified strategy, all other things being equal, will fare better. On a relative basis we expect a tactical diversified portfolio strategy will find it easier to outperform over the coming five years than it has over the last five years. If we are wrong, and the market continues to rise indefinitely, then we remain confident that each Rivers portfolio will continue to meet its objectives. We look forward to finding out how the coming five years will turn out.

Market Returns (£) - 30 th June 2021	1 Month	3 Month	YTD	1 Year	3 Year	5 Year
Anchors						30/06/2016*
Cash + 1%	0.1%	0.3%	0.5%	1.1%	4.6%	7.7%
Inflation Linked UK Bonds	-0.2%	3.6%	-3.0%	-3.7%	16.1%	25.9%
Gilts	0.7%	1.8%	-5.8%	-6.5%	10.1%	11.3%
Global Government Bonds (hedged)	0.4%	0.6%	-2.1%	-1.6%	9.1%	7.2%
Enhancers						
Global Corporate Bonds (hedged)	1.2%	2.4%	-0.9%	3.2%	17.3%	18.8%
Global High Yield (hedged)	0.8%	2.9%	2.6%	12.8%	16.6%	28.9%
Emerging Market Bonds (hedged)	1.7%	3.5%	-2.7%	-3.1%	9.5%	15.6%
FTSE 350 TR Index	0.1%	5.5%	10.8%	20.6%	5.4%	35.3%
FTSE UK All-Small Cap	1.2%	9.1%	19.7%	50.8%	35.6%	90.0%
Global Equity (FSTI)	4.4%	7.6%	11.9%	24.5%	45.5%	93.2%
European Equity (FSTI)	1.6%	7.5%	10.7%	22.0%	23.8%	58.3%
US Equity (S&P)	5.0%	8.3%	13.8%	25.3%	57.1%	111.9%
Japan Equity (Topix)	2.6%	-0.9%	0.1%	10.4%	13.7%	53.6%
Pacific Ex Japan Equity (FSTI)	2.9%	3.1%	4.6%	23.1%	34.8%	92.9%
Emerging Market Equity (FSTI)	3.1%	4.9%	6.3%	26.1%	31.7%	78.5%
Chinese Equity (Hang Sang)	2.2%	2.7%	6.1%	8.6%	6.3%	58.2%
Indian Equity (Nifty)	2.2%	6.8%	11.2%	39.9%	33.8%	69.5%
Diversifiers						
Commodity Index	2.9%	11.4%	18.0%	28.2%	5.5%	7.3%
Gold	-4.6%	3.0%	-7.9%	-14.1%	29.3%	22.1%
Silver	-4.1%	6.4%	-2.2%	23.6%	46.4%	25.2%
Brent Oil	2.9%	11.4%	18.0%	28.2%	5.5%	7.3%
UK Property	1.0%	2.4%	4.2%	5.7%	4.0%	15.9%
Global Property Shares	-0.1%	7.9%	11.3%	23.3%	5.3%	26.4%
Rivers Model Portfolios						
Rivers Preservation Portfolio	0.2%	1.2%	0.1%	2.5%	8.2%	17.7%
Rivers Cautious Portfolio	0.5%	2.4%	1.8%	6.5%	16.8%	35.0%
Rivers Balanced Portfolio	0.9%	3.3%	3.1%	10.1%	22.4%	46.8%
Rivers Adventurous Portfolio	1.3%	4.2%	4.5%	13.6%	28.2%	56.8%
Rivers Aggressive Portfolio	1.5%	4.7%	5.8%	17.2%	29.8%	66.3%
Rivers Cautious Income Portfolio	0.7%	2.3%	1.9%	7.9%	10.1%	19.2%
Rivers Balanced Income Portfolio	0.9%	2.9%	3.1%	11.0%	12.7%	29.5%

Source: Financial Express in GBP (unhedged unless stated) as at 30th June 2021. *Rivers Portfolios since launch June 30th 2016

Model Performance is indicative only and is net of Rivers Capital Management Charge and Underlying Fund charge but not advisor or platform costs.

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