Occasional Commentary from the Chief Investment Officer, Tuesday, September 08, 2015

An Update on our current Asset Allocation:

40% Top Tier, Large Equities, Value Bias
25% Commercial Property
15% Residential Property
10% Tactical Trading & Futures Hedging Strategies
10% Corporate Fixed Income (Investment Grade), GBP & USD, Short Duration

Key Comments:

As our investors and readers may recall, we exited China/HK back in April & May after the parabolic spike in those markets and might re-enter at these levels, although we will be seeking substantial margins of safety in stock valuations rather than paying higher multiples for momentum names.

As with some other Emerging Markets, we have to remain vigilant and ready as currently these markets are highly event-driven.

Where mandates permitted shorts, we had hedged our equity book all through summer and will probably stay very active tactically all through September, even if just to protect invested capital.

We would be surprised to see the US Equity Market fall substantially but our reasons for not being heavily invested in the US relative to other regions or asset classes are not the risks of further corrections but the muted upside prospects for P/E Expansion over the next 12 months. The only US-region exceptions would be 'Old Tech' where we do see value and competitive advantage and from a tactical perspective, occasionally M&A Arbitrage.

In respect of outright valuations, we prefer Japan and Singapore, albeit much more selectively with Singapore. For the former, we see good support from upwardly trending earnings growth, an exit from deflation, positive political and governance developments and a currency trend that seems to be moderately benign. Domestically exposed Japanese businesses would be our preference. For the latter, in Singapore, we have identified a few names where the valuations give us the margin of safety we seek when investing after a pullback.

Our sense is that we may see more price action below USD 40 (WTI) before the Oil price settles and bases. Henceforth, so while Oil remains weak and possibly in the process of basing, it is better to seek out the beneficiaries of this rather than the victims, such as Industrial Corporation consumers and Importing Nations. Japan and some of its industrial businesses tick these boxes.

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With industrial commodities prices still in a mire and the USD prevailing against most EM FX, it does not seem to be the right time to aggressively allocate capital to EM Equities. On a selective name basis, we are inclined to drip-feed over the next quarter, with a view to taking more swift action if a catalyst presents itself. The sharp falls in EM Equities and FX has brought many equities to interesting valuations on a Price/Book basis; however it seems that the P/E ratios are less remarkable. Hence, we again find ourselves waiting for a catalyst or event to tempt us into a meaningful allocation. Many Emerging Markets, South Africa being a case in point, are suffering from a strong USD, declining GDP, weakening commodity prices and political inertia. There needs to be some signalling of a turn before these markets become investable.

We would only materially amend our view on DM equities if the correction was accompanied by, or caused by, a recession in these developed markets. As that doesn't seem to be the case, we are comfortable with our long term allocation and will continue to use our proprietary hedging and tactical tools to best protect capital if and when the volatility returns.

As a month, September has a record of hosting tumultuous events, so it is always worth being vigilant. For the near future, as the vast majority of our equity shorts (Miners/Banks) are now closed, we will mainly use Equity Index, Bond, Commodity and Volatility Futures when required for the coming few weeks for tactical cover, alpha and protection.

The Fixed Income Portfolio allocation continues to be run down, with proceeds from calls or redemptions being re-deployed into Equities or Property.

Johnny Mehta

Chief Investment Officer

jmehta@axis-im.com

+44 20 7713 4889

@johnny_mehta

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