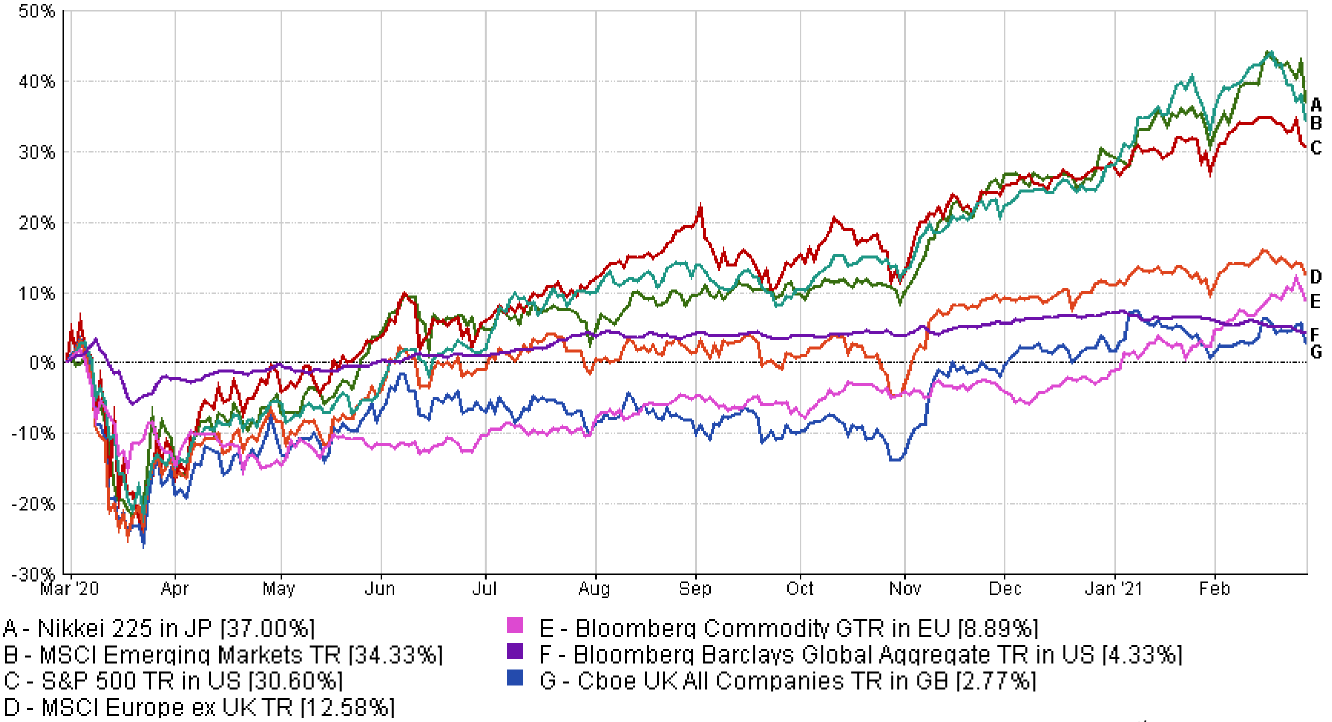
WISE FUNDS

TB Wise Multi-Asset Growth
Investment Review – Annual report
28th February 2021

Market Background

This annual report covers the year ended 28th February 2021. The start of that period coincides almost exactly with the realisation that Covid-19 was to become a global concern, and not one confined to China. Over the subsequent 12 months, the pandemic has directly affected us all in ways barely imaginable only a couple of months earlier. Despite the rapid and significant progress made in limiting its spread and impact, it continues to restrict activity and global economic growth.

Except for the first month or so, were we purely to look at the performance of financial markets over the reporting period, one might be excused for wondering whether the pandemic was really that bad. Equity markets reached a low in the third week of March but rebounded at an unprecedented pace until the very end of the period. For the year as a whole, the UK market, an undisputed laggard, rose low single digit percentage points, however, the US and Emerging Markets were both up more than 30% in local currency terms, while Japan was up close to 40%. This strong performance was not confined solely to equities. Bond markets also held their own (the global treasury index was up 4% in local currency and the global credit index was up 6%), while all commodities (agriculture, industrial metals, precious metals and energy) joined the excitement.



All data sourced from FE Analytics as of the 28th February 2021.

The reaction of markets in no way belittles the impact that the pandemic has had on the global economy.. The speed and magnitude of the damage caused by Covid-19 is unlike anything seen since the second world war. However, the response from global central banks and governments has been, equally unprecedented. Having learnt from the Global Financial Crisis of 2008, authorities have taken the view that acting big and quickly is the most effective way to deal with such a crisis. Within weeks of being hit by the virus, about 10 times as much stimulus was injected to support economies as in 2008. That extraordinary level of stimulus combined with the expectation that newly discovered vaccines would effectively combat the virus and allow economies to quickly reopen explain the strong performance of financial assets.

Such a broad-brush description of markets, however, hides large divergences in performance, none more marked than within equities. Initially the rebound was overwhelmingly driven by small sections of the market seen as direct beneficiaries of Covid trends, such as increased digitalisation, working from home and online shopping. Valuations were further supported by the largesse of central banks. This leading section of the market was found predominantly in the US and within growth companies, particularly the ones in the technology sector. Growth companies can be described as long duration assets. This means that investors look at those companies over a long-term time horizon, making assumptions and projections on what their future earnings will look like. Because of this long-term focus, those assets are particularly sensitive to the interest rate environment. In a low interest rate environment these companies are not penalised for the fact the bulk of their profitability sits a long way off into the future. These future profits, despite being much less certain, are discounted back to a present value using a very low discount rate and so appear as valuable as real profits being generated by lower growth companies today. Rising interest rates benefit the latter camp of stocks in two ways. Firstly, interest rate expectations are rising because investor confidence has grown in the economic outlook. This increases investor optimism over near term earnings so the relative growth rates on offer from growth stocks look less attractive. Secondly future profits become less valuable in today's terms as they are discounted back at a higher rate. In an environment where central banks are forced to keep interest rates suppressed to support economies in shock, growth companies have thus continued to perform more strongly than the rest. Within that sector, technology is seen as one of the few beneficiaries of the Covid crisis, with the sector leaping in a few months' time to where most analysts were predicting it to be in 3 to 5 years. With shops closed due to lockdowns and facing the challenges of social distancing when allowed to reopen, consumers are increasingly opting to shop online. Also, with many working from home, any company offering solutions (e.g. video conferencing, cloud storage) have been deemed to be clear winners from the pandemic.

For the first part of the rebound, which extended until the middle of Q4, markets increasingly took a binary view of the world… The sky was the limit for the winners, irrespective of valuation, whilst the rest of the market was treated as losers and did not recover the falls they suffered following the immediate onset of the crisis. At the lows for markets the dispersion between value and growth stocks was as wide as any of us had seen in our investment careers. As always, however, no matter how good a story is, valuations are a powerful anchor and the gravitational pull is eventually felt. Equally, even stories that don't appeal at first can be attractive once they become cheap. There is a price for everything and valuations eventually tend to reassert themselves. This investment backdrop of cheap assets getting cheaper had existed for the decade preceding Covid and it has been difficult to predict what the catalyst might be that would reverse such an established trend. The anticipation of victory for Joe Biden in the US presidential election, albeit protracted and not officially confirmed until January, opened up the prospect of increased fiscal stimulus and thus of a strong economic recovery. The doors of recovery were pushed wide open when strong efficacy results from vaccines from a range of manufacturers lit a path out of the crisis. While no panacea, the evidence on the available vaccines showed they successfully reduce the severity of cases for the unlucky few who still catch the disease. This has led investors to promptly revisit their assumptions on many of the businesses they had penalised until then. On the day the results of the Pfizer vaccine efficacy study came out, value equities had their best performance ever relative to growth equities. This outperformance continued towards the end of our reporting year.

Despite a new surge in cases over Christmas, increased hospitalisations and deaths, another round of lockdowns and concerns over new variants of the virus, the outperformance of value resumed towards the end of the period. The unexpected speed and success of vaccine rollouts in the previously worst affected countries, such as the US and UK, has encouraged investors in their view that the worst of the crisis is behind us. The positive narrative above, combined with continued unprecedented global monetary and fiscal support, drove a sharp rise in inflation expectations to a 6 ½ -year high in the US. If higher inflation were to materialize, central banks would be forced, at some point, to tighten monetary policy. This led bond yields to rise sharply in February (from ~1% to 1.5% in the US 10-year nominal bonds). While the absolute levels of bond yields remain benign, the speed of the repricing contributed to growth assets being actively sold. As described above, bond yields are used to value all assets and, in February alone, equated to a 50% increase in the cost of capital and such a repricing had a disproportionate impact on the long duration assets. It is worth remembering that inflation expectations are just that, expectations, and we are still a long way from seeing higher sustained inflation. Markets are a discounting mechanism, however, so expectations, at least in the short term, are what matter and create volatility until an equilibrium is found. We ended the reporting year in a somewhat perverse scenario where strong economic recovery expectations lead to higher asset prices, which lead to higher bond yields which, themselves, lead to lower asset prices. Such negative feedback loops can only be sustained for so long but can be highly destabilising while they last.

Performance

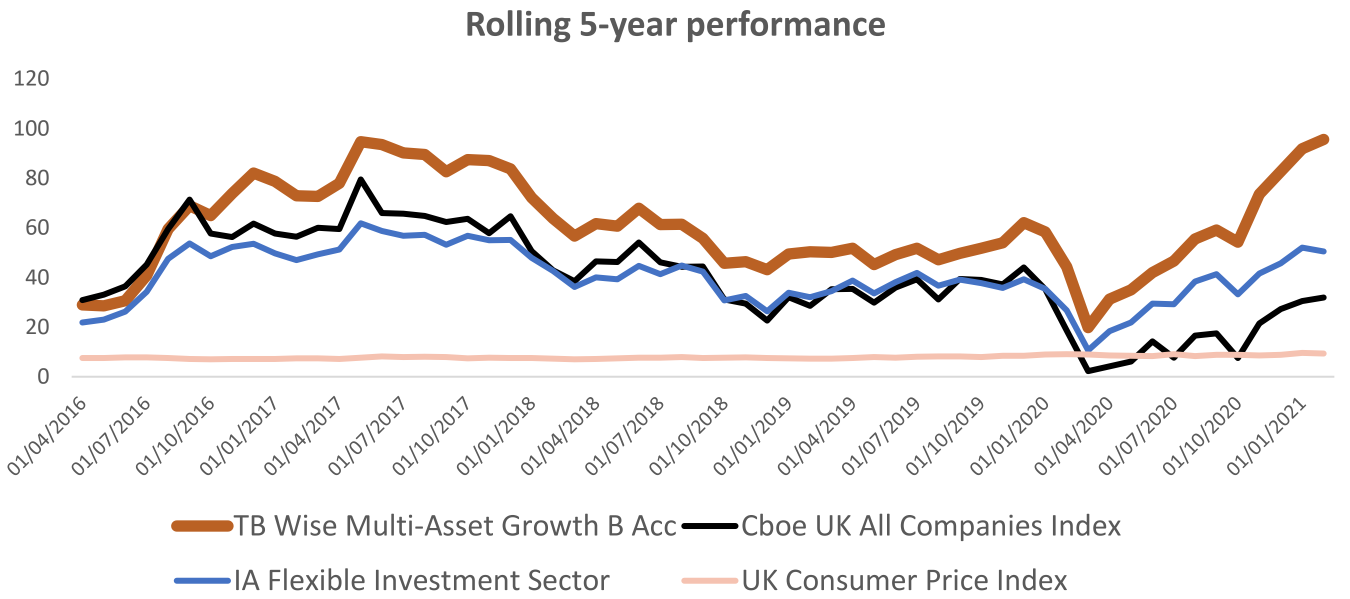
Looking at our performance for the period, the TB Wise Multi-Asset Growth fund was up 25% , compared with a rise of 2.8% for the CBOE UK All Companies index and a flat period for the UK Consumer Price Index. Meanwhile, our comparator benchmark, the IA Flexible Investment Sector, was up 13%. We are, of course, pleased to have beaten our target benchmarks and our comparator benchmark but, more importantly, to have delivered strong positive absolute returns in what has proven to be the most challenging period of our careers.

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years
TB Wise Multi-Asset Growth B Acc	2.61	7.88	19.64	25.02	27.37	95.65	140.12
Cboe UK All Companies	2.12	4.73	12.01	2.77	2.24	31.97	70.19
UK Consumer Price Index	0.09	0.18	0.46	0.46	4	9.32	18.59
IA Flexible Investment	0.61	3.07	8.83	13.04	16.82	50.42	82.12
Quartile	1	1	1	1	1	1	1

All data sourced from FE Analytics as of the 28th February 2021.
Past performance is not a guide to the future and outperforming target benchmarks is not guaranteed.

Contrary to what happened in markets where a narrow portion of assets drove performance, at least until Q4 2020, ours came from an array of sources. The main contributor was our exposure to mining, particularly precious metals which benefitted from the general uncertainty related to the virus and the economy, a weak dollar and the possibility of a return of inflation created by substantial stimulus measures. We get exposure to those metals via mining companies and those also benefitted from strong balance sheets, strong cash flow generation and attractive valuations. The Blackrock World Mining trust was up 97% including dividends for the year, while the Jupiter Gold & Silver fund delivered 48%. The fund performance was also helped by its diversified exposure to some of the areas of the market that benefited from the pandemic. The resilience and increased interest in the healthcare sector, which sent our position in the International Biotechnology trust up 50% is a good such example, as is our only technology fund, Herald Investment Trust, up 56%. We have stayed away from large US technology companies for a long time, due to sky-high valuations, but the Herald manager gives us exposure to smaller companies in the sector, with a large allocation to the UK. In the “winners” category, another strong contributor was our exposure to China via the Fidelity China Special Situations trust (+97%). China benefitted from its better handling of the pandemic than the rest of the world, as well as increased stimulus from the government, targeted at the economy but also at its stock market. Finally, towards the end of the period when Value managers started to outperform strongly, our large bias towards those managers, either regionally or through global funds, helped performance. At the end of the reporting year, our Value managers represented about 40% of the fund and we believe that we are still very much in the early part of the recovery for that investment style.

In the first half of the year, our UK equity funds were our biggest detractors. The UK market remained a stark underperformer during the period, plagued by the continued Brexit uncertainty and the fact it has a disproportionately high weighting within the index to sectors which were we negatively impacted by Covid . Unlike in the US, the technology sector is small in the UK (less than 2% versus about 25% in the US), while value sectors such as Financials, Energy and Consumer Discretionary are more dominant. Finally, UK equities are traditionally seen as a good source of income as dividend payments tend to be higher than in the rest of the world. They were thus hit particularly hard in the aftermath of the Covid crisis when companies were forced to cut dividends to preserve their balance sheets. However, from Q4 onwards, the market rotation towards Value and the long-awaited Brexit deal agreed on Christmas Eve helped our UK equity funds recover.



This chart shows the 5-year rolling performance at the end of each month in line with the objective for the TB Wise Multi-Asset Growth Fund. This data is taken from FE as of the 28th February 2021.
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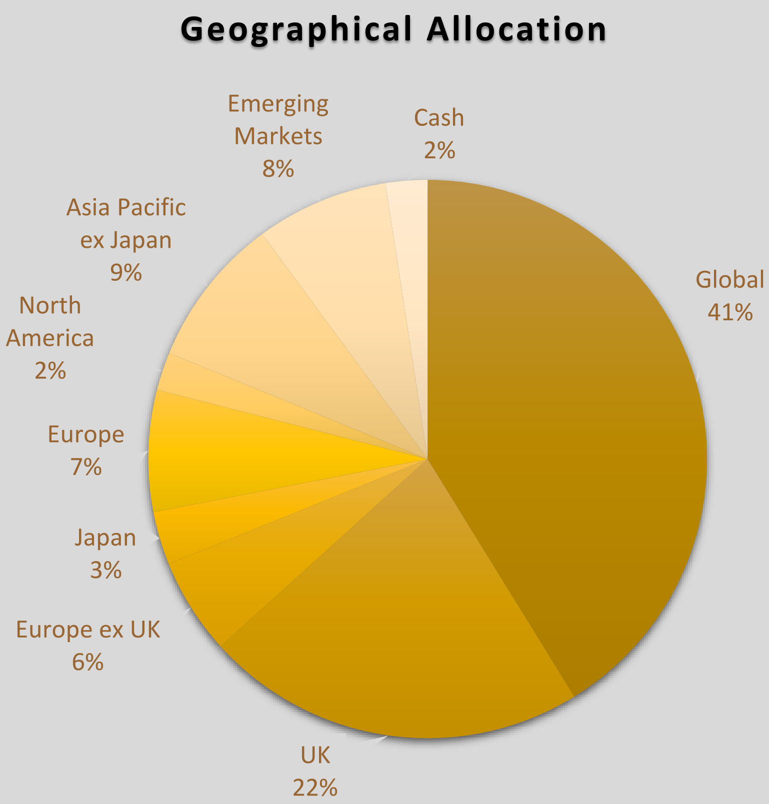
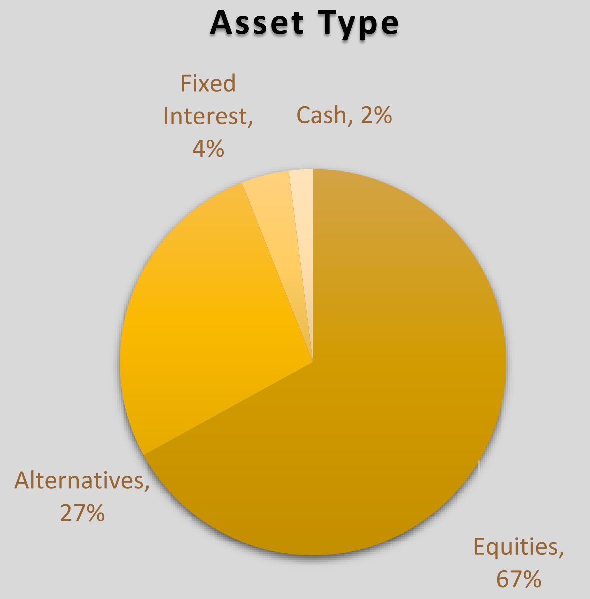
Allocation Changes

As a team, we conducted more than 200 meetings with management of funds and companies during the year. Traditionally, our meetings are relatively evenly split between our existing holdings and new research, and last year was no exception. It was notable, however, that during the first 6 months, about two thirds of the managers we met were already held in the portfolio. In turbulent times, it is critical to ensure that we, first and foremost, keep on top of our investments and this took priority over looking at new ideas. While not impossible, the latter are also unlikely to make their way into the portfolio when there is a lot of uncertainty because the threshold for inclusion is heightened. That said, turbulent times can be a great opportunity to add new positions with managers we were already monitoring and for which valuation was the only hurdle. This was the case of the Twenty Four Income Fund, a specialist fixed income strategy, which we had researched earlier in the year and purchased mid-March after a sharp correction. In the second half of the year, we added two new positions in Value equity strategies, as our conviction grew that a turning point in the recovery and investors' sentiment might be imminent. Those were the Polar Capital Global Financials Trust, which we have known for years and gives us exposure to expert investors in the archetypal value sector that Financials represent. We also added a new position in the Lightman European fund, a small and relatively new fund, whose manager we have also known for a long time. The manager, Rob Burnett, invests in cheap cash generative European companies with positive operational momentum.

We exited five positions last year. Two of those (Church House Tenax and the Janus Henderson UK Absolute Returns funds) were defensive strategies that we felt had fulfilled their role during the sell-off and where cash could be redeployed elsewhere in the portfolio. Two others were positions that had become too small (Hansa Trust and ICG Enterprise Trust). The last exit was due to profit taking in one of the positions we have held the longest in the fund and which has greatly contributed to our longer term performance, HG Capital Trust.

Whilst we were active on the trading front, we didn't make any wholesale changes to the fund's asset allocation. Our trading activity was mainly limited to taking profits on our winners and adding to our underperformers. We think that forcing this rotation out of the more expensive assets into the cheaper ones is an important discipline. Key to our investment process is to understand and gain trust in our managers before investing. This focus on qualitative research helps in difficult times because, when the good is sold indiscriminately with the bad, it allows us to maintain faith in the quality of our fund managers and their ability to take advantage of the opportunities that emerge. We have been impressed by how our managers have reacted to this crisis, diligently analysing their portfolios, adjusting their positions when required and sticking to their process. If we have done our work properly, we shouldn't need to make many changes to our portfolio ourselves as we know our clients' money is in good hands. Another factor is that our value bias pushes us towards managers used to focusing on risks and on balance sheet strength (value investors need to avoid value traps). We believe that those managers who avoid the riskiest of companies will ultimately come out on top. Finally, we didn't feel the need to change our asset allocation drastically because our portfolio is well diversified, not only by asset class (equities, fixed income, private equity, commodities, absolute return) but also geographically (UK, Europe, US, Japan, Emerging Markets). This diversification helped us weather the crisis and offer differentiated sources of returns in the rebound as mentioned in the Performance section.





All data quoted is by revenue of assets and sourced from FE Analytics as of the 28th February 2021.

Outlook

For the first time in a year, a clear path out of the pandemic has now been lit. The remarkable success of vaccines so far and the, somewhat surprising speed at which some countries like the UK and the US have demonstrated they can be rolled out, let us contemplate a strong economic recovery in the second half of the year. As we have seen time and again since the crisis started, however, there is no place for complacency and risks remain elevated. We thus continue to brace ourselves for some volatility ahead, despite our constructive outlook. While there remain pockets of value with tremendous opportunities for strong returns, a large section of the market is priced for perfection and there are increasing signs of exuberance in some investors' behaviour.

This is why we think that the correct strategy is to continue to have a balanced portfolio, mixing those cheap assets with growthier reasonably priced ones, as well as some defensive positions to protect against volatility. Meanwhile, our focus on exceptional managers will not waver and this should continue to underpin performance over the medium to long-term.

General Update

The TB Wise Multi-Asset Growth fund started the interim period with £57m of assets under management and finished with £65m.

Our team started working from home in the middle of March and adapted very quickly. We are lucky that our job lends itself well to remote working. We are also fortunate that, operationally, we were already set-up to work outside of the office, which made the transition easy. Our meetings with external managers, if anything, are now even more productive than they used be as they are quicker and easier to organise. Going forward, we will surely resume meeting managers in person, as this personal rapport is important to our qualitative research, but there is no doubt that we will continue to make great use of technology and reduce our travel. The fact that the whole world embarked on this virtual experiment together has helped make video calls more acceptable and those are likely to stay. That said, as a team, we are all eager to work altogether in our office again and will do so as and when it is deemed safe to do so.

Finally, all is left is for me to thank, personally and on behalf of the Wise Funds team, all our investors for their ongoing support in what has been a challenging period. Please feel free to contact us if you would like a meeting or have any questions.

Vincent Ropers, Fund Manager
Wise Funds Limited

Please note – this annual report the personal views of Vincent Ropers as at February 28th 2021, and does not contain financial or investment advice.

All performance is to be read in conjunction with the February 2021 factsheet found at the following website.
TB Wise Multi-Asset Growth February 2021 Factsheet

TO LEARN MORE ABOUT THIS FUND, PLEASE CONTACT
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