



Monthly CIO Update

2020 review. The Pandemic Year 1.0

December 2020

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Capital at risk.

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2020 is truly a year that we will always remember mostly for the wrong reasons. It will last long in future discussions and discourse. A year that will be imprinted into our memories for years to come. A year that has been full of very interesting investment observations and themes. A global recession year that throughout the twelve months created significant divergence of investment sectors and ideas. There was talk of manias, crashes and bubbles throughout the year, the talk has not gone away, will not go away.

Despite the pandemic, despite the economic turmoil, we ended the year on a positive note. One way the investment industry measures success is performance, investment performance. It is pleasing to report our good, consistent investment performance for the year, one can even say exceptional performance. **By way of example, our Growth investment portfolios have increased by +20% for the year, this compares to an equivalent benchmark return of +12%, around a +8% out-performance.** Credible, consistent and clear. This is *exactly* what we set out to achieve and it is pleasing to report such good performance in 2020. We performed well across the whole range of our investment portfolios.

Whilst the above is all excellent, we like to think we look *beyond* performance in any one year. It is never about any one year, a static time period. We are clear growth investors, so we need to not just look in that one year but across multi-year time cycles. After all we are looking to always invest in the *future*, investing in a very unique and differentiated manner from our peer group, from the investment industry. The way we look at investments is very different: we do not look at the index in any meaningful capacity. An index is there to give us guidance around peers, and what could be achieved against an investible passive opportunity. An index does not and never will drive our investment thinking. We invest in a highly active and focused manner, we like to present genuine active portfolio management to the DFM marketplace. Genuine active portfolio management in what is a very commoditised investment industry.

Let's discuss a key philosophy that runs through our investment strategies and our overall investing thinking: asymmetrical investing.

Asymmetrical investing

We like asymmetrical investing. We look at this area of investing very closely. What is asymmetry in investing?

This is the opportunity where the long-term return potential from an investment is very significantly *positively* skewed. Fundamentally, in holding an investment, the most one can lose is 100% of the capital sum invested. That is the potential total loss. In an asymmetrical investment thesis, the investment return could be far in excess of this potential 100% loss – in other words a significant multiple(s) of the sum invested. The upside return is therefore asymmetrical to the downside potential loss in a portfolio of such investments.

We believe that asymmetrical investing will be even more important going forward – the concentration of returns in key sectors and themes will make that obvious and clear. Academic literature as well as practical portfolio management bears out the possibilities and brings out the opportunities in such an investment strategy. Why do investors not do more of such asymmetry in portfolio management? Instead, we see a bias towards the short-term, towards minimizing investment drawdowns, towards sales and marketing to increase assets under management and importantly being *impatient* with investments; all possible reasons why most investment professionals are distracted, excuse themselves, from looking at this asymmetrical approach in any meaningful manner.

We, at Binary Capital Investment Management, are bold investors and therefore asymmetrical investing does not phase us, indeed the opposite – we embrace the challenge, we thrive in such an opportunity and environment. We are here to make money for clients in a long-term and risk controlled, patient manner, we do not and need not look at other variables beyond these key criteria.

The asymmetrical nature of investing fits in well with the overall investment philosophy at Binary Capital IM. We are long-term investors; we are prepared to be very patient investors. We have a very high degree of resolve and investment resilience in the way we invest. We like to see client alignment around all of this. This is not a destination *but a journey for us* and our clients. This overall investment philosophy gives us an *edge* when it comes to investing in an asymmetrical manner, indeed it gives us a competitive advantage.

We invest in a very active manner, and also like any funds we invest in, to be similarly active i.e. having a high 'active share'. We believe by investing in such a manner for the long-term is a very optimal way to invest and an excellent pathway for future success.

“...We embrace the challenge, we thrive in such an opportunity and environment...”

Optimistic mindset

As I highlighted at the start of this note, performance is one critical judge of our strategy and a validation of that. Looking ahead to 2021, I wrote this in my November note, it is worth repeating again now:

“...There is still much uncertainty. There is political and economic talk of social normality returning by easter of 2021, I would expect that to be unrealistic and a somewhat optimistic expectation - the summer of 2021 seems much more likely. Will 2021 be a normalised year for economic growth? I doubt it, it will still in part resemble 2020...”

We believe the dominant powers, economically, financially and in financial markets will continue to be the US and China. The major corporates in these two countries will continue to, we believe, have very strong economic reach and development on a global scale affecting our daily lives in very meaningful ways. Many old industries in Europe will be left behind. We have positioned our investment portfolios accordingly.

In 2021 as we always do, we remain mindful of the responsibility that we have. We remain mindful that there are challenges ahead. We remain mindful that an investment thesis can change very quickly – 2020 taught us that. We will react accordingly. By being rational and patient, with clear goals will help us in the investment journey.

We truly are living in very interesting and dynamic times. It is a privilege to have the responsibility that we have; to serve clients. We will continue to serve to our utmost commitment. We look forward to the year ahead.

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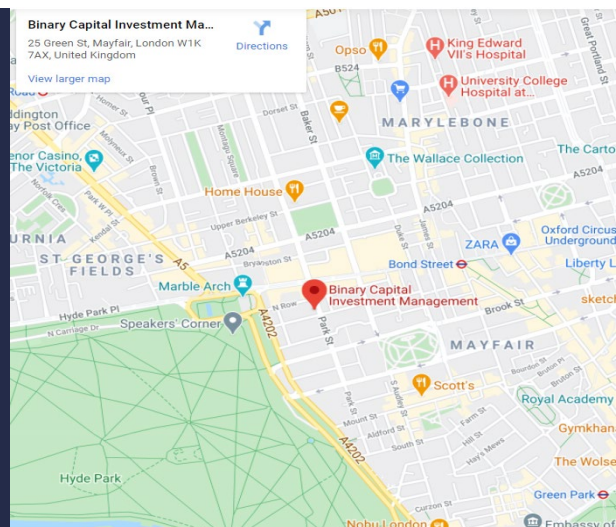


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