BINARY CAPITAL

Binary Capital Investment Management

CIO Note

New quarter, new dawn.

Long-termism shapes our relationships and our investments.

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New quarter, new dawn.

We start the new quarter with a positive and optimistic mindset. There is much to look forward to. There continues to be work to undertake as we aim to look to add value across our investment range. We always work within a dedicated and patient investing mindset. A mindset looking years into the future. A decade thinking mindset. A genuine active investing mindset.

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This month I have written a note around an interesting theme that we like to participate in within our investment strategies, asymmetrical investing. Not many investors think like this, or even understand it. We aim to have this theme running through *all* our investment strategies. The paper on this is worth reading and is linked here for ease of access: Asymmetrical Investing This paper highlights our differentiated strategies against our competitors in the wealth management world.

A third of the way into the year. Some interesting trends are now coming into view. At the start of the year our thesis was that the US and China would exhibit robust economic growth, and allocations there across our portfolios would prove to be compelling. Certainly, the economic arguments seems to be developing well, with robust GDP growth (above expectations) exhibited in both countries. However, the stockmarket returns from China have been subdued this year. This has been partly around concerns around Chinese government interference in corporates.
A more hands-on approach by the Chinese state. Recent examples have been:

- The stopping (or delaying) of the Ant Financial IPO
- Fining Alibaba around $3bn for alleged market abuse
- Chinese antitrust legislators having a closer look at Tencent

The above are just a few examples of Chinese state interference. On one level such transparency is to be welcome, alignment towards the best of western corporates practices is a good thing. This is positive. However, it needs to be undertaken through the proper frameworks and institutions, not on an ad-hoc basis. Not targeting specific industries, specific high-profile entrepreneurs.

We still are of the view that over the long-term China offers compelling value for investors and does so from a risk *and* return perspective. There is real innovation in China, genuine disruption around technology and healthcare – themes we are particularly attracted to. Over the long-term the powerful China economy will continue to be a real global driver, immersed everywhere, and will continue to dwarf many other countries, regions and economies. The point needs to be considered, the risk of *not being invested* in China. Exposure via Emerging markets funds is fine, but only delivers minimal exposure, it only goes so far. If you want real China exposure you need to take significant exposure there via a direct quality fund, quality exposure, long-term exposure.

Coming back to the point around asymmetrical investing. It is pleasing to see the good performance across our strategies in April, ranging from +6% in the active adventurous strategy, to around +2% in our active defensive model. Returns in excess of the competitive benchmark return. These returns addressed some of the negative returns in February and March of Q1. The acceleration from negative returns to positive returns can be long-lasting. The winners out-pace any of the losers. This is real asymmetry in action, the paper explains more.

We continue to back our investment views within our long-term asset allocation and fund selection. We are always innovating and developing. More innovation in portfolio management to come. We look at the clients need and address it in a very meaningful manner. In the coming weeks we will be releasing a paper around the future of fixed income - how we see that asset class developing, or indeed being replaced, in an era of enhanced inflation and future rising interest rates.

Our work continues. We look forward to the rest of the summer with a sense of renewal and cautious optimism.

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