BINARY CAPITAL
Investment Management

Investment Insights

Creative solutions for defensive portfolios

June 2021

Long-termism shapes our relationships and our investments.

Creative solutions for defensive portfolios

Capital at risk.

Following rising yields and an outlook for further rises, post a 20-year bull run in fixed income assets, investors are being pushed to look at alternative defensive asset classes as a *replacement* to fixed income as an asset class. To prevent losses, it is imperative to focus on options other than fixed income assets. Look beyond fixed income.

In an environment where global growth, nominal yields and inflation are expected to increase, fixed income assets face potential capital loss with low yields. Hence, there is no doubt that fixed income acts as passive weight in portfolios. This spurs a valid argument, growing within investing communities, that the '60/40' equity/fixed income portfolios are no longer optimal. To cover the common allocation of fixed income in portfolios, other asset classes are needed, indeed vital. Investors require an alternative solution: 'fixed income' like assets, without the duration risk associated with fixed income.

In this paper, we look at a variety of fixed income asset types and alternative assets that are liquid, low in price volatility and transparent in nature.

The purpose of this paper is to guide investors – particularly financial advisers and wealth managers to:

- better understand different fixed income assets – is there any value in such assets;
- the upsides and downsides of alternative asset classes;
- understand the building blocks within defensive absolute return funds, generate portfolio construction ideas outside of the equity/bond split framework.
- how we can structure potential investment solutions using alternative asset classes as *fixed income replacements.*

We evaluate from a practical perspective as UK-based multi-asset investors, investing on behalf of UK investors with actual products that are available to use in client portfolios.

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Asset Classes Considered

Asset Class	High Liquidity Risks	Full Transparency	Example Indices
FIXED INCOME			
UK Govt. Bonds	No	Yes	• FTSE Actuaries UK Conventional Gilts All Stocks Total Return Index • Bloomberg Barclays Sterling Gilts Total Return Index Value Unhedged GBP • Bloomberg Barclays Gilts Float Adjusted Total Return Index Value Unhedged GBP
GBP Investment Grade Corp	No	Yes	• Bloomberg Barclays Sterling Corporate TR Value Unhedged GBP • Markit iBoxx GBP Liquid Corporates Large Cap TRI Index
UK Govt. Inflation-Linked Bonds	No	Yes	• Bloomberg Barclays UK Govt Inflation-Linked All Maturities Total Return Index
US Inflation-Linked Bonds	No	Yes	• Bloomberg Barclays US Govt Inflation-Linked All Maturities Total Return Index
Long Duration GBP Corporate Bonds	No	Yes	• iBoxx GBP Liquid Corporates Long Dated Total Return Index
Short-Duration GBP Corporate Bonds	No	Yes	• Markit iBoxx GBP Corporates 0-5 Total Return Index
EM Debt (Hard)	Yes	Yes	• Bloomberg Barclays EM Hard Currency Aggregate Total Return Index
High Yield Corp	No	Yes	• Bloomberg Barclays Global High Yield Corporate Total Return Index•
Dynamic Bond Funds	Yes	No	N/A
ALTERNATIVES			
Hedge Funds	Yes	No	• Credit Suisse Hedge Fund Index • Bloomberg All Hedge Fund Index
Listed Private Equity	No	No	N/A
Listed Property	No	Yes	• FTSE EPRA/NAREIT Developed
Structured Products	Yes	No	N/A
Listed Infrastructure	No	Yes	• MSCI ACWI Infrastructure Index • S&P GLOBAL Infrastructure Index • DOW JONES BROOKFIELD GLOBAL Infrastructure Index
Commodities	No	Yes	• Dow Jones Commodity Index TR Index • Dow Jones Precious Metals Index

PART 1:

Exploring Fixed Income Asset Classes

Why do investors use bonds in wealth portfolios?

Investors primarily use fixed income in portfolios for income, as a defensive low-volatility asset class to manage returns, and for diversification – historically there has been a negative correlation with equities, acting as a hedge against equity risk. Typically, fixed income has generated returns from the income yield on the asset plus the potential for (some) capital gains if interest rates move in the right direction of the bond investment.

We are currently facing record low interest rates globally. Such low rates are expected to be for a prolonged period. With yields now beginning to rise, there is a material risk of capital loss on fixed income assets. This was demonstrated most recently in early 2021 as yields increased, arising from future growth, interest rate and inflation expectations. Therefore, there are significant implications for a classic 60/40 balanced portfolio and larger consequences for cautious portfolios which typically hold more than 60% in fixed income assets.

There is a wide range of fixed income fund types that are available to investors such as sovereign bonds, high-yield credit, short-duration and long-duration amongst others. We explore whether there are opportunities within the wide variety of fixed income asset classes available to UK wealth investors, particularly focusing on short and long-dated corporate bonds, inflation linked bonds and strategic bonds.

Short-dated corporate bond funds

A short-dated corporate bond *is generally defined as a corporate bond with a maturity period of less than 5 years. Such bonds can be said to have less risk than other corporate bonds as there is less uncertainty around repayment of principal and there is lower duration risk – a key risk for fixed income assets.*

Short-dated corporate bond funds will be less volatile than benchmarks such as The Bloomberg Barclays Global Aggregate Index (a flagship measure of global investment grade debt from twenty-four local currency markets), or long dated corporate bond funds, with a lesser risk of capital loss if relevant base interest rates were to rise.

Short-duration strategies allow wealth managers to reduce volatility in a portfolio, maintain liquidity and reduce risk of capital loss during periods where interest rates are expected to rise. Such shorter duration strategies offer an alternative to cash or liquidity funds, with the potential to earn a higher real return over and above cash.

Long-dated corporate bond funds

A long-dated corporate bond *can generally be defined as a corporate bond with maturities over 10 years. Such bonds contain a significant amount of duration risk, or sensitivity to interest rate movements, and therefore the potential for relatively significant capital loss on investments if interest rates move against the long bond investment.*

Long-dated corporate bond funds will be more volatile than standard benchmarks, with a significant risk of capital loss if relevant interest rates were to rise.

Long–dated corporate bond funds can be a source of alpha for portfolio managers taking a directional bet that interest rates will fall or provide a higher yield when bond yields are less volatile. Such bond assets may provide protection in times of market stress and monetary policy changes.

Understanding Inflation-linked bond funds

Inflation-linked bonds *are primarily issued by sovereign governments, primarily the UK and US. Inflation-linked bonds are designed to help protect investors from the negative impact of inflation, through the bonds coupons and principal being linked for example in the UK to the Retail Price Index (RPI) or the Consumer Price Index (CPI) in the US.*

As with other fixed income investments – the price will fluctuate, and if yields rise the market value will fall.

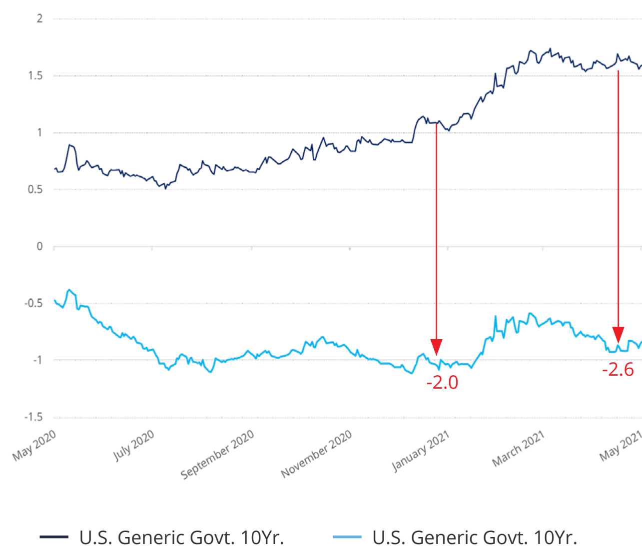
Inflation-linked bond funds will offer protection or enhanced returns if inflation were to rise above the current breakeven rate (see next page).

Will inflation-linked products protect my bond allocations in an environment of rising inflation?

To answer this, we need to consider what is termed the breakeven inflation rate.

What is the breakeven inflation rate:

From a simplistic perspective, the breakeven inflation rate is a market driven measure of expected inflation; what the market is pricing in for *inflation expectations*. It is the difference between nominal yields currently on offer and the "real yields" available from inflation-linked investments of the same maturity. The charts on the right demonstrate this with the US 10-year T-Note and 10-year US Treasury Inflation-Protected Security (TIPS). The difference is the 10-year breakeven which can be interpreted as the inflation expectations priced into the US market over the time frame.



If inflation averages more than the break-even, the inflation-linked investment will outperform the fixed rate investment at maturity. If inflation on average is the same as the breakeven rate, then you will expect the same return as the nominal rate available.

When investing in inflation-linked investments, it is wise to see what is already priced in as inflation expectations across a range of benchmark maturities, and therefore provide a guide on what you can expect to receive in returns if inflation rises or falls.

What to look out for when investing in fixed income funds

Fixed income funds certainly differ in characteristics to equity funds, and one needs to consider fixed income very differently. It is a completely different asset class.

When investing in fixed income funds there are many characteristics and details an analyst should consider, such as:

Investing Dynamic Bond Funds

Dynamic bond funds *are also known as strategic, unconstrained or targeted-return bond funds. Such products seek to deliver returns regardless of the direction of interest rates and market conditions. They use a cash benchmark. A diversified set of exposures which can be dynamically adjusted as market environments change.*

Dynamic bond funds have an attractive sales pitch when there is risk of interest rates rising. Such products claim the key advantages are:

- Unconstrained bond strategies can take advantage of market mis-pricings across global markets in interest rates, currencies and credit markets.
- Use of derivatives – forwards, futures, swaps and options. Ability to take short directional bets with derivatives, as well as be more dynamic with risk positioning.
- Active management of duration risk. Able to manage duration risk dynamically, in times where fixed income markets are under stress, managers can dynamically adjust duration positioning towards short duration to protect capital.
- Can invest in a wide variety of asset exposures such as corps, High Yield (HY), loans, Emerging Markets (EM) debt, asset backed securities and currencies.
- A more balanced way of investing. Structural and tactical movements. Benchmark agnostic. An absolute return mindset. A focused mindset.

Nevertheless, such products come with additional risks such as:

- Currency risk exposure – dynamic bond funds manage this and may aim to generate return from currency exposure management.
- Manager risk – the success of a dynamic bond fund is heavily attributed to the skill of the manager rather than the broad direction of the market.
- Complexity – understanding the many moving parts within such a strategic bond fund and how it all comes together for consistent return generation. One needs to consider how such complexity fits in to the overall positioning of a portfolio.
- Counterparty risks and Liquidity risks - Such risks may arise from investment in derivatives and other esoteric instruments.

Our thoughts on strategic bond funds

Dynamic bond funds have an appealing sales pitch to investors; however, the funds may have illiquidity and crash risks that are not visible to investors due to the higher complexity and lower transparency of such strategies. Furthermore, strategic bond funds have multiple strategies at play. Often these strategies seem uncorrelated but can become similar. Hence, care is very much needed. Currencies, interest rates, credit options and more complex instruments are often at interplay in such strategic bond funds. Careful analysis is needed, not all dynamic/strategic bond funds are the same and what is ‘strategic’ to one fund manager or investment house may not be the same to another.

From our research, historically, most dynamic bond funds have underperformed benchmark bond indices from a total return and risk perspective. Additionally, historical analysis may not be a good predictor of future performance. Nevertheless, such dynamic bond funds have been successful, on average, in mitigating drawdown when markets sold off, example: the covid-19 pandemic, where a number of standard corporate bond ETFs saw larger drawdowns.

Dynamic bond funds rely heavily on manager’s ability and short-term market timing, and there is no conclusive evidence to suggest that managers have such ability to time the market consistently over the long-term. Manager skills in the fixed income space are very difficult to ascertain with any degree of clarity. Therefore, careful attention is required when seeking out solutions in fixed income in the dynamic bond area.

PART 2:
Exploring Alternative Asset Classes

Our aim is to establish whether there are any suitable alternative asset classes which are highly liquid in nature and can replicate the role of fixed income investments in our portfolios or offer consistent returns commensurate with a low volatility asset class.

Over the past 20 years the alternative asset class universe has increased significantly into the many product categories and product areas that are now available to investors, ranging across different risk and return profiles.

But do these product areas, such as listed infrastructure, hedge funds or listed property:

- Offer genuine value add to lower volatility targeted portfolios?
- Protect against an environment of rising interest rate and inflation expectations?
- Provide protection in market downturns – effectively hedge equity risk?
- Add genuine diversification from equity markets?
- Offer transparency and value for money

Often such alternative assets are less liquid and opaquer than what we traditionally invest in at Binary Capital. Therefore, we analyse such assets with utmost care and attention. The costs of investing in such assets can also be difficult to determine, and again good fundamental research will bring out the *costs and benefits* of such products.

As a diversification tool, alternative assets can be useful. Often many asset classes, whether it be real estate, commodities or structured notes, have a low correlation or inverse correlation to equity markets and so overall could fit into a broad, diversified portfolio.

Listed Infrastructure

Listed infrastructure are listed investment assets that have ownership or control of infrastructure assets. Infrastructure assets can be described as physical assets that provide basic services to society for example, utilities – electricity, water and gas, transportation – toll roads, railroads and communications infrastructure such as telecom towers. These essential assets are critical to the functioning and growth of economies.

One can gain effective exposure to such infrastructure investments through investment companies (closed-ended investment funds) that invest in infrastructure investments for example.

Listed infrastructure are advertised with a plethora of benefits, from offering inflation protection, diversification benefits, liquidity and typically lower fees. Listed infrastructure in the short-term may have equity like characteristics, but over the long-term some may offer more defensive bond proxy characteristics. The bond like characteristics arises from the monopolistic and essential nature of many infrastructure assets – providing highly stable and predictable cash flows. Many infrastructure contracts may be inflation protected.

However, often listed infrastructure assets may have a high level of debt on their balance sheets, and an increase in interest rates can negatively impact revenues and margins. Furthermore, infrastructure funds may have high investment exposure in ESG sensitive sectors such as oil and gas – arguably sectors that will significantly decline in value and utility over time.

Such listed infrastructure can potentially provide better longer term returns for investors through funds, as funds can participate in new fund raises and be broadly diversified. However, not all infrastructure funds are the same. Funds labelled as listed infrastructure, the underlying investments could be argued are invested in a sub-set of equities – heavily concentrated in areas of the market such as energy, utilities, communications and transportation.

What to look out for when investing in listed infrastructure funds

What is not appropriate:

- Growth equity type risk
- Commodity price risk
- Underlying investments that are not infrastructure like assets.
- Obscure assets which creates pricing and liquidity issues.

Our thoughts on listed infrastructure funds

Listed infrastructure is an interesting asset class. There are strong merits to hold such assets in a broadly diversified portfolio. Infrastructure is typically real assets, real returns often linked to strong corporate balance sheets or elements of government backing, generating stable cash flows. If such opportunities exist, they can be attractive to hold in a portfolio. Often real infrastructure opportunities are only available in private markets.

Globally there are significant moves to increase infrastructure spending at all levels. Even western economies are ramping up spending across core infrastructure – roads, rail, broadband. Of particular importance is infrastructure in emerging markets as countries there further develop into substantive economic powerhouses. There are real infrastructure opportunities there via the corporate and government sectors across all areas of development.

When looking at the investable universe for infrastructure funds priced in sterling, there are limited opportunities that provide a risk and return profile that is not equity like. As in any asset class, careful analysis is needed, details matter. Research is imperative to source the best opportunities in the infrastructure area. While we seek liquidity in such investment solutions, it is important that such solutions are right, relevant and able to add consistent value.

Listed Private Equity

Private equity is a very distinct asset class, as the name suggests equity into private businesses and capital investments into privately owned businesses. Usually, private equity investment is 'locked in' for a period, often five years to seven years. Why is there a 'lock in' for a period of time? It takes time for private equity investments to be realised as often such investment is in small, developing or distressed companies which is to be fully realised over years, for the business plan to be fully executed and then such companies getting large enough to be acquired by larger competitors or listing on an exchange via a public listing. There may be high minimum entry commitment values to invest.

Private equity investments are illiquid and therefore need to be managed patiently and with strict due diligence. One way to obtain liquidity in private equity investments is to invest in closed-ended investment vehicles (VCTs) which are listed and/or liquid, that have private equity investments within their underlying investments i.e an investment company that holds private equity investments within it.

Due to the long-term nature of value realisation within private equity this asset class could be a good diversifier from listed equities and a potential for higher returns. Nevertheless, such listed private equity is high risk, very often more volatile tthan listed equity markets, although may seem lower due to valuation cycles. Listed private equity as an asset class is not appropriate as a defensive asset class. Rather, listed private equity is appropriate for investors with a high-risk tolerance with the aim to maximise returns over the long-term.

Structured Products

Structured products are a growing area of finance, and such products are used extensively in portfolio management. These products can be used for risk management. Structured products can be seen as complex instruments, complex investments subject to investment risk, counterparty risk and time value risk.

The basic premise of these products is to give exposure to asset classes, investment markets in a risk-controlled manner for a specific time period. In such products, it is common for the capital to be protected or partially protected if the investment is held for a specific time period, for example three years or five years.

Hedge Funds

Hedge funds are a broad category that include a wide variety of differing strategies such as long/short investment funds, activist funds, mergers and acquisition strategies as well as numerous other strategies for absolute/consistent return generation in any market environment.

Hedge funds are typically used for risk mitigation and return seeking opportunities when investment markets are challenging and often directionless. Hedge funds are typically much more expensive than traditional funds and are often illiquid in nature, for example investments into such funds are often locked-in for three, six or twelve months.

More recently, performance of hedge funds has been relatively poor when compared to the general market performance. Investments into hedge funds need to be treated with caution and significant due diligence needs to be undertaken. The investment performance of hedge funds has been poor for many reasons: lack of volatility in many investment markets; poor investment strategies and high fees impacting on performance.

Typically, as an investment house, we would not invest into hedge funds as such strategies do not meet our requirements of transparency and liquidity. We would only invest if there was a very compelling reason to do so and we could not obtain equivalent investment exposure otherwise. Hedge funds are also additionally impacted in that they are expensive on many levels, management fees and often performance fees.

It is common for the best performing hedge funds to be closed to outside investors. Hence, even if you want to invest in the best hedge funds, it is often not possible. Therefore, investors are left with other less optimal, more expensive strategies that do not deliver enhanced returns as expected from such strategies.

Listed Property

Property is a very interesting asset class. It is a highly stable and durable asset class which can be covered in many forms. However, property is illiquid. One can invest directly into property (Direct property investment), Real Estate Investment Trusts (REITs) or into a fund that invests in a diversified range of listed real estate investments.

Property as an ‘asset’ covers many forms: residential property, industrial real estate, commercial central office property to commercial retail central or out of town assets. What all these have in common is their lack of liquidity. Property assets can take many months, sometimes years, to sell and raise capital, to reinvest into other properties.

By using a listed vehicle or a fund that covers property through investment in listed assets, property can then be turned into a liquid opportunity. Again, in the context of property funds it is all about the underlying property investment strategy and understanding that fully relative to the exposure one is seeking. Research is paramount.

In summary, for liquid access to property as an asset class, listed property is a great vehicle to do so and avoids many of the structural pitfalls with investing in property.

Property can act as an interesting inflation hedge. Property income streams are often secure, and inflation-linked often for a long period of time. In this scenario property assets provide bond like qualities on the income side and lower volatility on capital growth.

Commodities

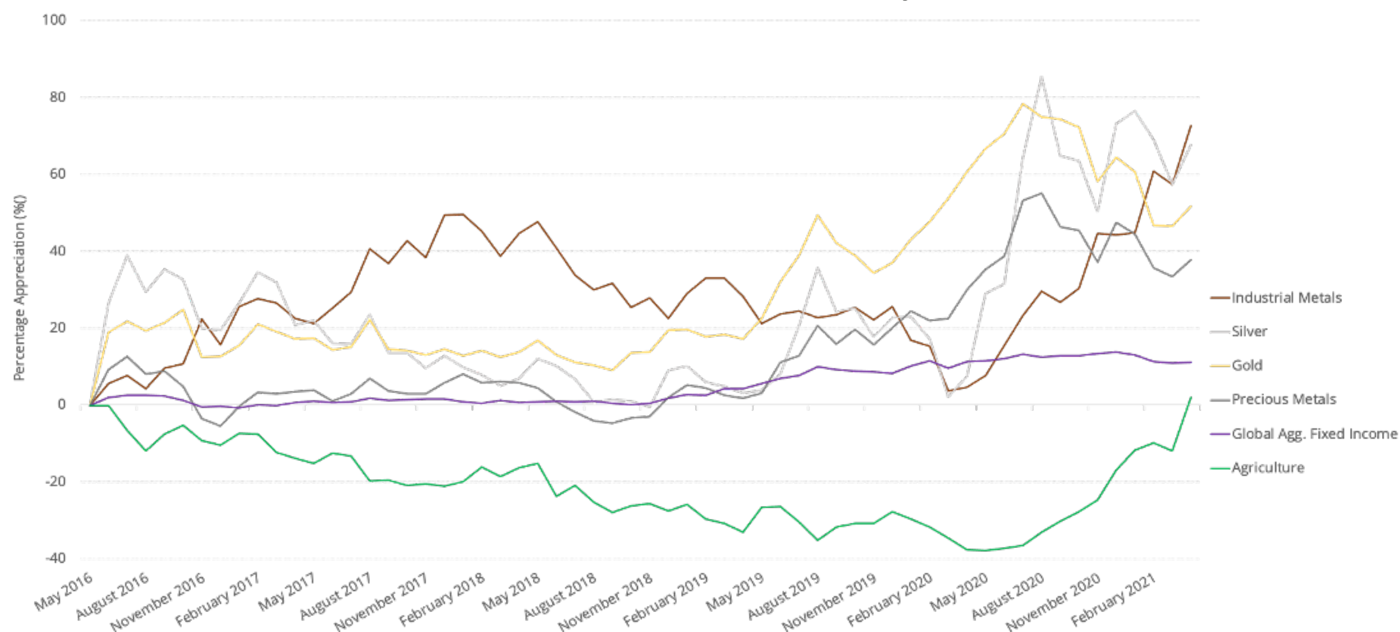
Commodity investing is a common theme in many investment portfolios. Many commodity instruments and funds are listed on investment exchanges. Popular commodity investments are crude oil, gold, silver and copper amongst numerous other options available to investors. Commodities, as an asset class, are wide ranging from hard commodities: precious metals, industrial metals to soft commodities: agricultural and food commodities, examples being wheat, pork bellies, coffee, cocoa and orange juice to name a sample.

Carefully selected commodity investments can act as diversifiers away from equities and fixed income. Many commodities benefit from economic growth, rising inflation and consumer habits. Commodities such as gold and silver are often seen as a safe-haven assets in times of market volatility and indeed market sell-offs.

Commodity investment characteristics differ largely, also differing from other asset classes. Therefore, investing in commodities is a specialist investment area, needing to be managed carefully. Specialist help is required.

Exposure to commodities can take various forms, investment can be made through various Exchanged Traded strategies: exchange traded products, exchange traded commodities and so on. Commodities may perform well in inflationary periods, high growth economic phases, although the contribution to total portfolio risk needs to be considered. Commodities typically do not deliver or generate any income; the focus is very much on capital appreciation.

At different times of investing, commodities could have a place in a portfolio to generate returns away from other asset classes.



	Index Proxy	5-year annualised return
Global Aggregate Fixed Income	Bloomberg Barclays Global Aggregate Bond Index	2.20
Gold	iShares Physical Gold ETF	9.94
Silver	iShares Physical Silver ETF	11.76
Agriculture	S&P GSCI Agriculture Index	-0.47
Industrial Metals	S&P GSCI Industrial Metals	12.45
Precious Metals	S&P GSCI Precious Metals	8.96

PART 3:

Exploring absolute return funds

Defensive Absolute Return Funds

Defensive absolute return funds including dynamic bond funds, promise to make consistent returns in all market conditions. The difference between defensive absolute return funds to dynamic bond funds, is that they are invest anywhere, open to invest in any area of investment markets to generate consistent returns with lower volatility and drawdowns, using the full range of asset classes noted in the paper.

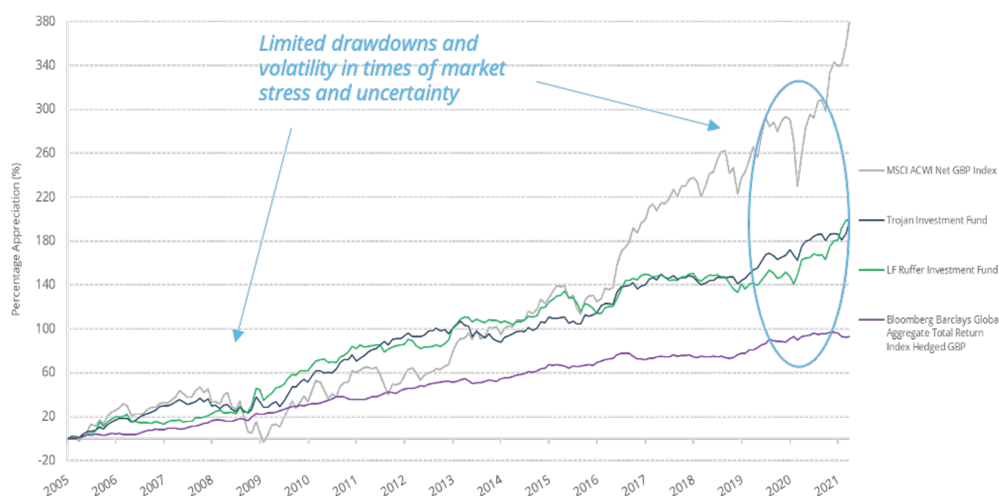
There are a wide range of approaches that an absolute return mandate could take – our focus is more on long-term all-weather multi-asset absolute return strategies that are transparent, and do not heavily rely on short term market timing. We look for defensive absolute return funds that are consistent around fixed income like volatility levels with low drawdowns in times of market stress.

Such strategies often use defensive equities, equities that have stable cash flows, low-volatility, strong balance sheets, stable dividends, characteristics that we have described around infrastructure assets. Utility like equity investments. Such defensive equities exhibit characteristics of quality, low volatility and value as factors.

We highlight two examples of defensive absolute return funds, that we believe have been consistent in achieving their absolute return outcome, whilst preserving investor capital. These funds appear to have all the key attributes one would wish to select for stable low single digit returns generation with low volatility.

- LF Ruffer Total Return Fund (Ruffer Investment Company)
- Troy Trojan (or investment trust Personal Assets Trust) - The fund managers describe the fund as not 'absolute return' as their is no short directional exposure, but the fund is managed with an absolute return mindset.

Such funds have an excellent track record and importantly delivered returns in time of market stress, exactly the time that these funds need to properly work and deliver on the 'capital preservation' furthermore due to the way these funds are managed, they should benefit from, or be stable, in a rising interest rate and inflationary environment. These funds are also transparent in the way the investment strategies are managed and are well aligned to our own, Binary Capital, way of investment thinking.



LF Ruffer Total Return Fund

A clever fund that does what it says. Generates absolute returns in a consistent manner. Aims to protect capital.

Strategy and Philosophy

An absolute return fund that aims to deliver consistent year on year returns with low volatility. As a minimum the fund should deliver returns over and above inflation data.

The philosophy of the fund is very much designed for private clients in mind. The strategy of the fund remains true to its principles in a very consistent and clear manner. Ruffer as an investment house is well known for some key defensive and absolute return principles.

Key Portfolio Characteristics

The portfolio has a mix of investments. Holding equities, fixed income and commodity investments – Gold.

All-Weather Asset Allocation: The bond positions are fairly standard with US and UK treasuries held. The portfolio manager is of the view that the bond market growth story is over; other solutions are required. The portfolio is split roughly 50% in fixed income and 50% in equities.

Banking shares are a significant equity holding, Barclays, NatWest and Lloyds Banking Group. Overall the equity positions could at best be categorised as traditional 'value' investments. Investments that deliver stability of earnings and often dividends. Investments that provide steady returns to investors over the long-term.

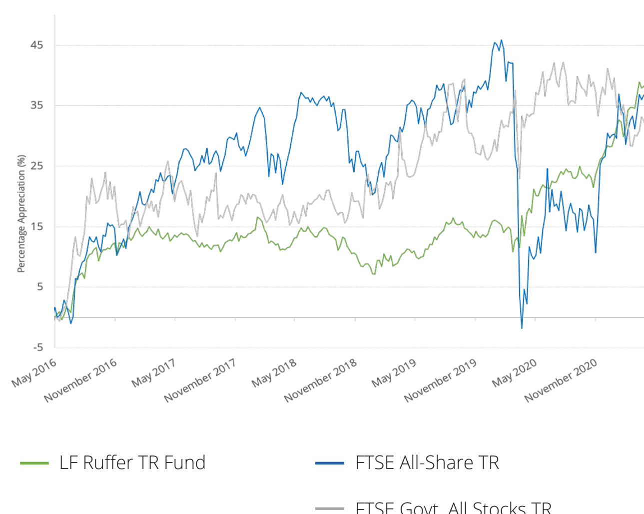
Ruffer are big fans of index-linked bonds. They believe inflation (certainly in the short-term) will take hold in western economies. This is another reason why Gold is held widely in the portfolio.

Defensive Equity Positioning: The equity component of the portfolio is designed around safe, secure global equity names with strong profits and balance sheets. There are some equity positions linked to the overall theme of the portfolio, for example: Gold. Gold and Gold related equities is around 7.5% of the portfolio, so substantial enough for a meaningful contribution.

Derivative Protection: Protection to help the portfolio should markets sell-off, thereby providing an element of stability in volatile times. Ruffer historically have used complex derivatives to protect capital from market falls. This was used successful during the pandemic market sell off in February and March 2020. The term they use is unconventional protection. This is important, that there is protection built into the portfolio to alleviate potential market drawdowns.

Key Information	
Inception	29/09/2000
Style	Capital preservation
Exposure	Multi-asset
OCF	1.02%
Fund Size	£3.9bn

5 Yr. percentage appreciation of LF Ruffer Total Return Fund Vs. FTSE All Share Total Return & FTSE Govt. All Stocks. Data as at 30.04.2021.



	LF Ruffer TR Fund	Benchmark(FTSE All-Share TR)
5 Yr. Annualised Return (%)	7.19	7.04
5 Yr. Annualised Volatility	8.71	16.43
5 Yr. Sharpe Ratio	1.26	0.49
5 Yr. Annualised Downside Risk	8.71	16.43

Asset Classes Utilised
Index-linked bonds
Gold related investments
Short dated bonds
Global equities (defensive/value tilt)
Illiquid strategies and options

Troy Trojan Fund

A well-established fund, managed by a credible investment team. A positive and clear strategy.

Strategy and Philosophy

An absolute return fund that aims to deliver capital protection on the sum invested as well as regular capital appreciation in a safe and secure manner. The target is to beat UK CPI over the long-term, 5-7yrs. Since the launch of the fund over 20 years ago, the fund has delivered on its remit, indeed delivered by a considerable margin.

Key Portfolio Characteristics

The portfolio is split approximately 50% in fixed income and 50% in equities. There is also an element of Gold positions in the portfolio.

Blue chip equities, physical Gold investments together with US and UK index-linked bonds form the bulk of the investment portfolio. Cash is also used actively, currently sitting at 6%.

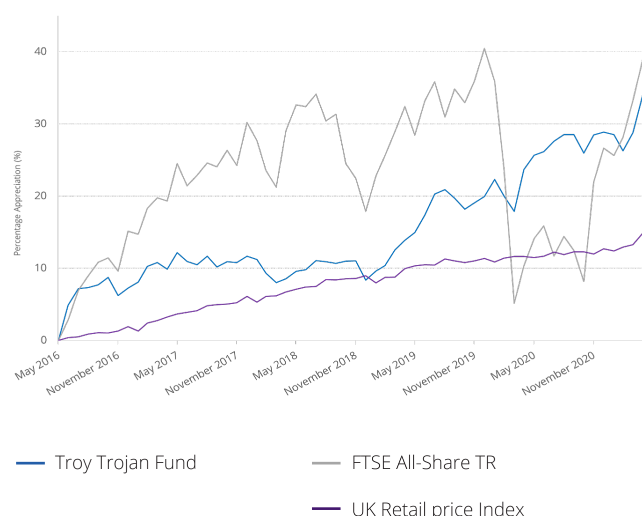
Defensive Equities: The equity investments are quality in nature with technology exposure via Microsoft and Alphabet other equity investments are stable, brand name type equities designed to provide good dividend income into the fund. The fund delivers half of the volatility of the FTSE All Share Index.

Fixed Income Exposure: The bulk of the fixed income exposure is via both US and UK index-linked investments. Bonds designed to protect capital in a scenario of rising interest rates. Again, this demonstrates the safety of the investments on offer. Cash is also used as a flexible asset and as protection as and when required.

Gold: Around 10% of the portfolio is invested in around physical Gold investments, a significant allocation to what is a non-yielding asset. This can be seen as a protection asset exposure in volatile markets, rising inflation.

Key Information	
Inception	31 /05/2001
Style	Capital preservation
Exposure	Multi-asset
OCF	0.86%
Total AUM	£5.637bn

5 Yr. percentage appreciation of LF Ruffer Total Return Fund Vs. FTSE All Share Total Return & FTSE Govt. All Stocks. Data as at 30.04.2021.



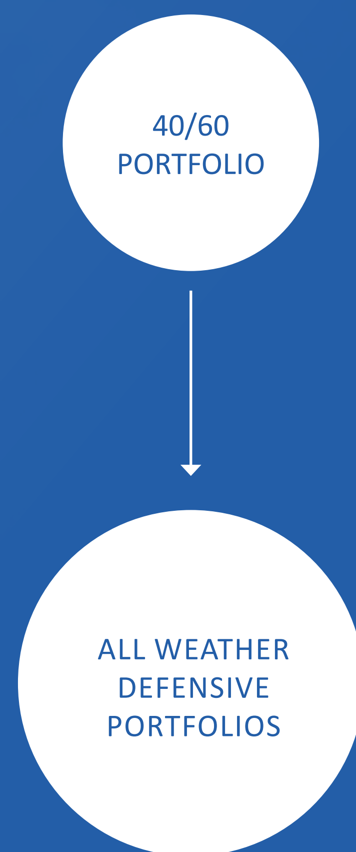
	Troy Trojan Fund	Benchmark(FTSE All-Share TR)
5 Yr. Annualised Return (%)	6.19	7.04
5 Yr. Annualised Volatility	8.90	16.43
5 Yr. Sharpe Ratio	0.90	0.49
5 Yr. Annualised Downside Risk	6.23	16.43

Asset Classes Utilised
US Index-linked bonds
UK T-Bills
Gold Related Investments
Global Equities

Risk Profiles

Split between two dominant asset classes; fixed income and equities. Typically, it was fixed income for stability and income with equities providing the capital growth opportunity.

A portfolio designed for the long-term. Typically, a solid portfolio for long-term investment strategies.



Relatively recent innovation in investment strategies. Designed to deliver returns across all market environments and time horizons. Use of different asset classes to generate such returns: commodities; different fixed income strategies as well as derivatives to deliver protection on the portfolio.

A portfolio designed to deliver consistency of returns and create fixed income type returns in the fixed income area of the portfolio without the fixed income risk (in a rising interest rate and inflationary environment)

Only some portfolios described or marketed as all weather are genuinely flexible enough to be so. Careful analysis is required to generate the real opportunities in what is a complex area of investing. Get beyond the complexity to understand what is the portfolio actually doing.

Closing remarks

We noted a wide variety of fixed income asset classes, as well as potential bond like replacements that could be used in client portfolios.

To summarise, we believe there is a compelling case for a differentiated approach to fixed income. There is a strong argument that the standard 60/40 fixed income/equity model is broken and needs to be amended with more coherent strategies. This paper explored this and has come up with some definitive and concrete investment solutions. Solutions that are transparent, investable and designed for private client portfolios and DFM solutions.

The solutions we have presented we believe still fulfil our philosophy of being aligned to our long-term, high conviction and patient capital methodology of investing. The funds themselves follow that investment philosophy. We are confident in implementing such solutions when there is merit in doing so.

We believe we at Binary Capital have proactively and progressively placed some interesting ideas to be discussed and potentially to be executed. The end of the typical 60/40 portfolio may be over, but new ideas will take place which will build on the work in that portfolio management space. At Binary Capital we are all about innovating and being ahead of our peers when it comes to real portfolio solutions. This is just example of that: i*nvest in fixed income like exposure without the fixed income risks.* We will continue to innovate for the benefit of our clients at all times. Seeking the best exposures at all times.

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The Information in this document is not intended to influence you in making any investment decisions and should not be considered as advice or a recommendation to invest. Any Information may not be suitable for all investors and investors must make their own investment decisions using their own independent advisors and relevant offering material. Any investment decisions must be based upon an investor's specific financial situation and investment objectives and should be based solely on the information in the relevant offering memorandum. Income from an investment may fluctuate and the price or value of any financial instruments referenced in this document may rise or fall. Past performance is not necessarily indicative of future results.

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