



BINARY CAPITAL

Binary Capital Investment Management



Chief Investment Officer Note Q2 2021 – DNA of Binary Capital investing

Long-termism shapes our relationships and our investments.

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[binarycapital.co.uk](https://www.binarycapital.co.uk)

DNA of Binary Capital investing

Investment performance is pleasing in the 1H of 2021. This follows an excellent 2020. However, this is only a very short-term time frame. We think in years. With that in mind, our goal for consistency in returns for clients in a complex environment of inflation, interest rates and increased globalization is ever present in our investment philosophy and minds. As a firm we stand out from the crowd due to the uniqueness of our approach.

We are optimists, we understand the potential opportunities ahead of us: the industries being disrupted, the vast network effects taking place, where real innovation is happening.

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At Binary Capital we ended the quarter and half year on a positive trend having experienced periods of some negative returns during the year. It is pleasing to report good performance for the quarter just ended and for the 1H of 2021. These returns are in-line with our thinking around investments and markets. The returns are aligned to the asymmetrical nature of our investment strategies. These numbers validate our work.

Our lives continue to be disrupted, affected by the pandemic. I have previously written extensively around this, and implications for investment markets. Keeping it simple, it appears we are in the end game of the pandemic (in western societies at least) the rest will be mitigation on an ongoing yearly basis. The crucial and important phase going forward is how quickly can we witness economic normality resuming and thereafter enhanced economic growth, and the implications for such normality for investment markets.

By taking a long-term and very patient approach to investing, we have seen through the pandemic in relatively unscathed terms. Our portfolios held up well, performed well. We did not aim to time in and out of volatile weeks and months. It is impossible to time such swings in markets, even if we get lucky upon an entry into rotational movements, exiting such would be problematic. We have no competitive advantage around market timing.

The vaccine roll-out has been a success and it is important that this roll-out is pushed out to less developed countries and others who cannot afford such. It is true: *no one is safe, until everyone is safe*. We must work towards this goal. Normality will only really be realised as we get close to this outcome.




A goal we work towards at Binary Capital is producing consistency of returns, also returns irrespective of what the benchmark is delivering or indeed what our peers groups deliver. We do not care for the latter two. We want to make consistent returns and do this in the best way possible. We go against the trend of many in the wealth management and DFM industry, aiming to manage portfolios that look to create value in future and forward looking scenarios. We are always future looking and importantly we do this with a level of high conviction. Naturally we take into account the risk parameters that we need to work within, but over and above this, we know what our best ideas are. We stick very closely to such ideas with significant positions in such.

We want to make a difference in portfolios and the best way we believe to do this is to directly or indirectly invest in the top companies out there: the top 5% of companies that are a real positive disruptive influence, within their company and sector, to our current and future lives. We want to always be invested in this group and will aim to select funds and strategies that adopt this philosophy with zeal. We will underperform from time to time - but the key thing to note is that such short-term time horizons are irrelevant to us and effectively noise in the investment markets. We manage through this. We manage out of this.

It is interesting as we look at our approach and then compare to others out there in the wider marketplace. I can only summarise many other solutions as effectively index tracking but with active management fees. The question needs to be asked why pay for closet indexation when the choices of passive funds are so vast? This issue is something that the investment industry will need to continue to address and agree frameworks around. There is a reason why we do not invest in this way. It does not work. It is not in the clients' best interest and also not an optimal way to manage assets in the current and future investment world. Change, or get changed delivered by others.

In light of our high conviction and focus on key themes and strategies, we are using this opportunity to take out in the portfolio excessive interest rate and inflation risks. We are undertaking this strategy in a similar way we manage money: high conviction and focus. The risk of holding long dated bond funds is very clear, we plan to neutralise this strategy with a move towards genuine alternative investment strategies that behave similarly to fixed income but without any of the risks of fixed income returns (or lack of returns). A radical strategy designed for a new era of elevated inflation and slowly rising interest rates. A strategy that is radically different and not found elsewhere, why? Investors still cling on the views that fixed income will deliver significant returns going forward, I doubt it. This departure from traditional norms is not new, it is something we persist at in Binary Capital Investment Management. It is part of our DNA of investing and culture: to be radical when others meet at consensus, to be high conviction when others are similar. To always be bold and radical in our thinking.





Against this background we are optimistic around the rest of the year as well as around the future. We are cognisant around the push and pull factors at play around value versus growth. We believe this is 'old school' thinking and not conducive to the way we want to manage portfolios and have our investments positioned. We try not to pay too much attention to this growth/value narrative. We pay attention to seeking the best funds out there who invest in the best and most optimal investment strategies, investing in those companies that will be transformative in their sectors: transformative in terms of market share, revenues, margins and profits. With that narrow and determined focus we monitor the gyrations around investment trends but very much stick to our investment philosophy. A patient and long-term investment philosophy.

One key area which will focus minds around in the second half of 2021 is China. How Chinese growth in different sectors will impact those companies and the wider global world. We believe Chinese economic growth is set to accelerate, the disruptive nature of Chinese corporates is expected to be felt in China and also more broadly. The further influence of China in global economic growth and development is further set to accelerate. Chinese dominance is developing in a coherent and fairly consistent manner. Every year the landscape for western businesses changes, changes forever, and the creeping Chinese dominance reaches in. We are one of the rare DFM specialists in the UK who have a direct exposure to China via a collective investment fund. The growth in China will be compelling in the coming years and at Binary Capital are well positioned to take advantage of the best Chinese opportunities. This is another reason why we are different.

I end this note with some caution. Caution that all around us we see the rise in passive investing, a rise in indexation of investments, a rise of computer driven investments. As I noted at the start of this piece, alongside all of this we continue to see a rise in closet indexation, active managers taking an active fee for essentially low-cost passive investment strategies. At Binary Capital we are different. Our active and sustainable range of solutions are genuinely active, funds invested in with a high active share. From that strong position we ourselves invest with high conviction and avoid absolutely the indexation common amongst others. From this the performance and positioning of our strategies is very clear. This is why we stand out from the rest of the investment industry and do things differently, *this is for very valid reasons*. This is the only way to create genuine long-term value for clients in their portfolios across any risk strategy.

In a sea of uniformity to be bold and different can be tough, can be a challenge. To have an ultra-high conviction focus and laser like determination around asset allocation takes courage. Our optimistic and patient capital mindset will deliver results. We look forward to delivering.



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