BINARY CAPITAL

Binary Capital Investment Management

Chief Investment Officer Note

Always trying to win.

Long-termism shapes our relationships and our investments.

December 2021

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Always trying to win.

This note is longer for a reason. I try and summarise my thoughts on what happened in 2021 and also give a sense of an outlook for 2022.

The end of a year, a fresh date in a calendar does not necessarily mean a wholesale change. We have remained true to our investment beliefs. Concise, concentrated and non-consensus.

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December proved to be a challenging month with market volatility throughout the month and negative sentiment underpinning most days. Recent policy announcements did not help matters. Concerns around a new covid variants, policy mistakes are playing heavily on investors minds. Further clarity from central banks and reversal of previous dogma is welcomed and should give us transparency into 2022. I am referring particularly to the US FED and the transparency around its reversed inflation and interest rate policy. 2022 is the year central bank policy making starts to act and deliver in more conventional manners.

As you read this, we should be beyond the recent 'Omicron' 2021 UK winter covid wave. No doubt in winter 2022 we will face into a different Covid-19 outcome.

On investment matters, in summary our portfolios for the year returned a range -2% to +11% to the more adventurous (sustainable) strategy. These returns are subdued from the 2020 return outcomes. It can be inevitable that after an exceptional year of returns the following year can be less so, markets do not move in a straight line. In this note I explain some of the reasons for our return generation this year.

Through 2021 we remained patient and focused to our investment philosophy. We made minimal changes to the investment strategies; early in 2021 we understood well what was happening to fixed income markets and so changed our fixed income allocation to take away much of the interest rate risk inherent in that allocation. Our fixed income allocation is now effectively interest rate neutral with the opportunity for enhanced returns. In other words, we have not taken a position on the future movement of interest rates and will benefit irrespective of how they move.

We have a large weighting in the US equity market, The US market has had an odd year. Whilst the US equity market return overall was significantly positive, our overall allocation here did not perform all that well. The broader US themes we invested in: healthcare and biotechnology did not perform in 2021. In essence the overall US equity return was very narrow in scope, with around 35% of the index return coming from a very small number of mega-cap names. It was very hard for active investment managers to add much value in US equity markets. If you did not own or were underweight such large-capital technology names, you were at a significant risk of under-performing the US indices. 2021 was a year where the battle was against the index and the index won easily. Most of the return of the MSCI World Index (+20%) came from US stocks.

The US is still a dominant asset class for us, and we believe the US will deliver outsized returns for clients in the years ahead. We remain committed to allocating and investing in the US. The opportunities around economic growth, corporate growth in the US continues to be significant and compelling when compared to other asset classes.

We have seen no material reason to change our view or allocation to US equities, indeed, as we go into 2022, we have increased the allocation slightly.

From an equity investment perspective we want exposure to overseas markets, we prefer investing away from the core UK market. Whilst Europe ex UK was a laggard to portfolio returns in 2021 we see opportunities in Europe to move towards a more enhanced growth phase and create better return opportunities than many other markets. A phase of corporate activity and opportunities in many growth sectors and green finance means it seems sensible to allocate more towards Europe as an asset class. In reverse, for some the UK is a core asset allocation focus, for us less so, there are far better investment opportunities elsewhere globally, so we invest elsewhere. The UK stock market has *less* of the dominant growth themes we like, less persistency in earnings growth and hardly any long-term disruptive investment opportunities.

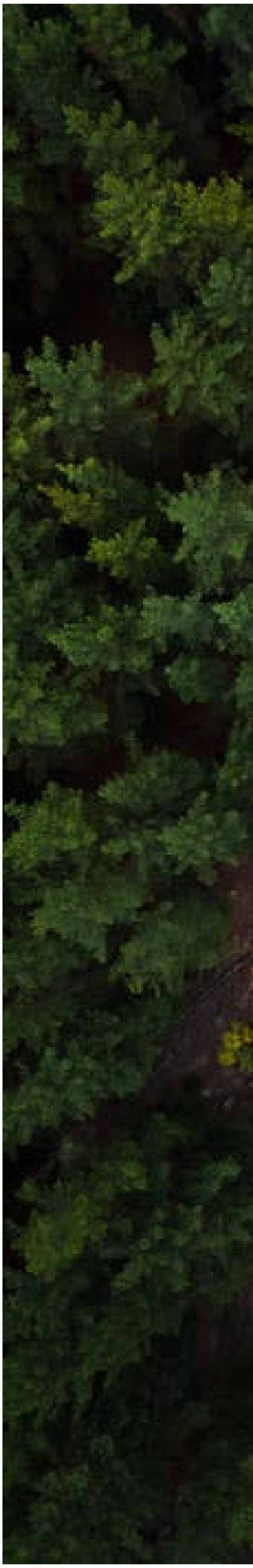
Whilst in 2022 the UK stock market may surprise on the upside, we believe there are even better such upside returns opportunities in specific overseas markets.

We are always seeking growth for investment returns, this will naturally lead us to Asia markets alongside emerging markets, specifically markets alongside Asia developed markets. We do not view emerging markets in broad asset allocation terms, we have specific areas of emerging markets which we like and have dedicated allocations to. For our standard investment portfolios we have dedicated exposure to China, we like Chinese equities as an asset class and the opportunities that the Chinese economy presents over the next decade.

Our dedicated allocation to China did not perform well in 2021. Chinese equities have faced significant government headwinds, regulatory concerns as well as investment sentiment. All of this negatively impacted Chinese equity returns. In 2022 we do not see a repeat of this, a lot of the negative news on China is priced in. We are bullish for Chinese equity growth due to fundamental as well as global macro factors. Chinese equities are well placed to continue the trajectory they have undertaken over the past decade.

So we end 2021 on a bullish note on US equities and will start 2022 with the same. We end the year with an allocation to Chinese equities and will start the year similarly. Our fixed income position changed dramatically in the middle of 2021 and already that allocation is proving its worth, we have good expectations for that allocation in 2022. We also go by the mantra if it does not need changing there is then no need to do so. We remain focused on the end goals.

We end the year with more sophistication surrounding our investment strategies, like a 2.0 version. All this is done with simplicity: simplicity of thought, execution and delivery. We do not change: **we are high conviction, growth oriented and long-term investors.**



2022 Outlook

In 2022, as I noted investment returns have been concentrated on a very select group of equity investments, so whilst index returns have performed well this has come from a very narrow equity base. This is something to be mindful of as we enter 2022, will these same 'mega cap' stocks continue to perform exceptionally well in 2022? We do not think so, we believe in 2022 returns will be broader in scope and overall, more normalized.

In 2022 we will be entering the third year of the pandemic. The 'new normal' is already in place and will accelerate through the year. The foundations of the pandemic are set and will continue for a while, decade long in fact. The disruptive effects of the pandemic will further develop into real life changes for all. Technology disruption is here to stay and will only become more prevalent. Democratic healthcare opportunities will also create more consumer choices, more consumer changed behaviours. The innovative nature of biotechnology facing into healthcare will start to deliver results. More research funding will be placed into finding long-lasting healthcare solutions for all.

The exponential nature of disruption we are witness to, by definition will increase in 2022. As investors we need to be ready in the right countries, sectors and importantly *themes* to take advantage of such trends for the short-term but importantly *for the long-term*. The short-term signs are already there on the key opportunities this decade. We need to be utmost in resilience and patience to take advantage of such investment opportunities and so do without fear. The upside if we get it right is enormous, it therefore makes it worthwhile to seek such disruptive opportunities at all times. We live by this mantra.

2022 Outlook

Every year is different, 2022 will not follow what happened in 2021 nor 2020. One dominant narrative we keep hearing about is the possibility of a market correction, a correction of the so called ‘market bubble’, a correction which for many market participants is long overdue, and the year 2022 seems right for such a change. Let's address this issue. Firstly, no one knows when such a correction, if it does happen, will occur. We have already witnessed significant drawdowns over the past two years with subsequent market upturns. Secondly, even if such a correction occurs, we will not know until after the event the extent of the correction, the bursting of the ‘bubble’ – if one calls it that. Most likely as long-term investors we will manage through the downturn and indeed see it as a buying opportunity as assets are priced more cheaply. We will be brave and forceful in our actions here. We *are* mindful of these issues at all times, but it does not cloud our judgement in what we see as the right investment opportunities, at the right time with the right strategies for clients.

In most events predicting the future one year out is difficult, and usually it is by luck rather than intellectual judgement one gets it right. We typically do not pay too much attention to such 12 months forecasts and look to much longer-term time frames to fix our thinking and investment strategy. So whatever I write and have written for next year needs to be seen in that context. Only the brave or foolish person will say for certain what to expect in 2022.

At Binary Capital Investment Management, the whole business is built on being non-consensus, being different, having ‘an edge’. Our reaction to any significant market correction will be different and our views on future market trends is very different from our peer group. We do not follow a path of closet-indexation. We are different.

2022 Outlook

The reason we are different is not for itself, not to stand out, not to see ourselves different from our peer as a marketing differentiator but because there is a better way to manage money for clients, there is a more optimal way than what occurs now. The industry we work in ourselves is itself ripe for disruption, we want to play our part here, and be central to the future opportunities that will present themselves. At Binary Capital Investment Management it is a mission.

We want to give consumers better investment choices, better investment outcomes and a more democratic way to invest than what perhaps they ever felt they had previously or thought was possible. *There is responsibility on us to do this, we like to think we bear this responsibility well. It is for others to judge; it is for the investment markets to judge. We remain steadfast and resolute in what we are trying to do*.

Saftar Sarwar
Chief Investment Officer
Binary Capital Investment Management
December 2021

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