ACPI INVESTMENT MANAGERS

ACPI Balanced UCITS Fund (Z USD)

June 2019

The ACPI Balanced UCITS Fund aims to provide investors with long-term capital preservation and growth by investing in a portfolio of equities, bonds and cash. The Fund invests in cash deposits, international bond and equity funds to provide a portfolio diversified through both asset and geographic allocations.

WINNER OF THE 2018
THOMSON REUTERS
LIPPER FUND AWARDS
UNITED KINGDOM

FE ALPHA MANAGER 2018
MARCUS SZEMRUK

Ratings as at end May 2019

FUND COMMENTARY

- The Fund (USD Z Class) finished +3.2% vs. +4.3% for the Index in June to leave it +9.2% vs. +8.5% year to date. Equities contributed +2.6% vs. +2.4% for the Index whilst fixed income contributed +0.5% vs. +1.9% for the Index.

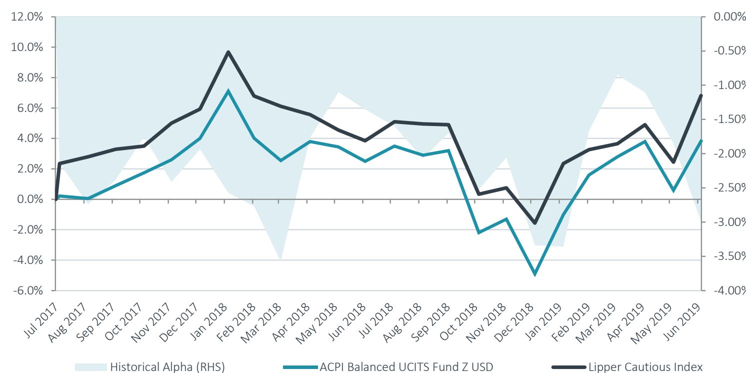
Macro

- June was a busy month for markets with news flow active and pivotal towards sentiment on many fronts. This was most pertinent in the world of central banking with the Fed, the ECB and the Bank of England all announcing their respective policy decisions. Policy overall continues to pivot to a more accommodative stance as policy makers factor in the recent collapse in inflation expectations coupled with a deteriorating macro-economic picture particularly within global manufacturing.
- In the US, the Fed kept current policy on hold as expected however eight officials now expect rates to be lower by year end. A number of words were dropped from the accompanying statement which had inferred a more hawkish stance prior to the meeting. Fed funds futures are now pricing in around -83bps of cuts through the end of this year with an 82% probability of a -25bps cut at the Fed's next meeting in July. The Fed downgraded its growth assessment on the US economy whilst also noting that business investment is deteriorating. Inflation meanwhile continues to subside as highlighted in the core PCE measure which at 1.6% has fallen ~50bps since the middle of last year. Short term real rates have therefore become more restrictive which is a similar picture around the world. The policy stance in Europe however indicates an economic situation requiring greater urgency. In quite a dramatic turnaround Mario Draghi signalled that the ECB is moving towards further easing measures and as part of those measures the bank would consider all instruments available at its disposal, including the possibility of further interest rate cuts despite deposit rates already being at -0.4%.
- Markets were also transfixed by the trade war between the US and China and the pivotal scheduled meeting between the two parties at the very end of the month at the G20 summit. The summit concluded after the month of June and although no formal deal was announced the two parties agreed to recommence talks which had stalled only last month. In addition and although the exact details remain unclear, the US has agreed to relax the ban on the sale of components to the Chinese Telecoms network equipment maker Huawei.
- On the data front economic activity continued to broadly contract with survey and actual data reflecting an increasingly challenging backdrop. In Europe, business sentiment in the region's largest and perhaps most important barometer on global growth hit the lowest level since 2016 as the German ZEW investor confidence gauge came in at -21.1 against expectations of -5.6. Meanwhile, industrial production (-1.8% year-on-year) and the Markit Manufacturing PMI (44.3 and firmly below >50 which signals expansion) also point to a deteriorating picture in this side of the country's economy. In some of these cases, the modest stability within the services side of these respective economies still means that economies are still grinding along given that consumption remains the far larger driver to economic growth relative to manufacturing. Services PMI's within

(continued overleaf)

PERFORMANCE

Past performance is no guarantee of future returns. Source: ACPI and Bloomberg. All performance is calculated on a NAV-to-NAV basis and is as at the last business day of the month.



Monthly performance (%)

	J	F	M	A	M	J	J	A	S	O	N	D	Year	BM1
2017								-0.16	0.85	0.84	0.84	1.36	**+4.0**	**+5.9**
2018	2.98	-2.87	-1.42	1.22	-0.34	-0.92	0.98	-0.59	0.30	-5.22	0.91	-3.65	**-8.6**	**-7.1**
2019	4.10	2.63	1.18	0.97	-3.08	3.21							**+9.2**	**+8.5**

Net performance (%)

	1 month	3 months	6 months	1 year	3 years*	5 years*	10 years*
Fund	+3.2	+1.0	+9.2	+1.3		-	-
Benchmark	+4.3	+3.1	+8.5	+2.9		-	-

Rolling 12-month performance to the most recent quarter end (30 June 2019)

	30.06.2018 – 30.06.2019	30.06.2017 – 30.06.2018	30.06.2016 – 30.06.2017	30.06.2015 – 30.06.2016	30.06.2014 – 30.06.2015
Fund	+1.3%	+2.5%		-	-
Benchmark	+2.9%	+3.9%		-	-

FUND FACTS

Entity	ACPI Select UCITS Funds Plc, Ireland
Investment manager	ACPI Investments Ltd
Inception date	27 July 2017
B'mark 1	Lipper Cautious Index
Minimum investment	$2,500
Minimum additional investment	$500
Subscription	Daily
Redemption	Daily
Redemption notice	One business day
Available currencies	USD, GBP, EUR, CHF
ISIN	IE00BD38HJ93
TICKER	ACPBRUS ID

KEY DATA

Strategy assets (USD)	$165 million
NAV (USD)	$10.38
Total return since inception	+3.8%
Annualised return since inception	+1.8%
Annualised standard deviation	7.5%
Sharpe ratio	0.18
Percentage of up months	60.0%
Percentage of down months	40.0%

FEES

Management fee	1.25%
Performance fee	None

FUND COMMENTARY (continued)

these countries, although now contracting, still remains in modest expansionary territory however the deterioration within the manufacturing sides of economies means that most economies remain in an increasingly precarious position barring some major economic catalyst.

Equity Attribution: +2.6% vs. +2.4% Lipper Global Equity Median Index

- Equities were strong in June as markets responded favourably to the prospects of a concertedly more accommodative stance from the world's central banks despite the absence of any meaningful pick up in forecasted earnings growth and clearly deteriorating economic data. High hopes for a truce in the trade war between the governments of the US and China towards the very end of the month also aided sentiment. Regionally speaking, the US (+7%) was the main contributor to global indices whilst emerging markets (+6.2%) also benefited from a weaker US Dollar and the prospects of looser monetary policy, particularly within those nations with currencies pegged to the US Dollar. China A-shares (+6.1%) benefited from the more reconciliatory prospects surrounding trade between the country and the US, whilst Japan (+2.7%) remained the relative laggard.
- Return attribution at the portfolio level was decent with strong degrees of outperformance being seen from a host of the Balanced Fund's active equity expressions. Despite the relatively sombre advance in Japanese equities both the GLG Japan CoreAlpha Fund (+4.1%) and the Pinebridge Japan Small Cap Equity fund (+3.7%) finished ahead of large cap (+2.8%) and small cap (+1.7%) indices respectively.
- In the US the Vulcan Value Equity Fund (+8.6%) also finished well ahead of the S&P 500 Index (+7.1%) with attribution being driven primarily at the underlying stock level from amongst the technology and industrials sectors. At the global level, the Morgan Stanley Global Brands Income Fund (+4.4%) and the Sector Healthcare Value Fund (+5.3%) were also key contributors to overall fund performance.

Fixed Income Attribution: +0.5% vs. +1.9% Lipper Global FI Median Index

- Bonds were also firm in June as declining inflation expectations and a more dovish stance from the world's central banks supported the asset class. The Citi World Government Bond Index finished +2.3% to leave yields at 0.69%, the lowest since late 2016. The ongoing pivot by the US Federal Reserve and the 82% probability of an interest rate cut in July prompted a weaker US Dollar (DXY -1.7%) which in turn had broad ramifications across the global bond universe. EMD was the primary beneficiary with local EM Sovereign debt finishing +4.4% whilst hard currency EMD returned +3.4%. Global credit also advanced firmly with Investment Grade credit benefiting from modest spread compression and the longer duration sensitivities of the asset class to finish +2.8%. The higher beta and more cyclically exposed High Yield market also finished +3.0%.
- Attribution from the ACPI Balanced UCITS Fund's fixed income book was modest in comparison to the benchmark. Going into the month with a starting (nominal) yield of -0.2% (i.e. the investor paying the issuer to own the paper) we believed there was little reward to be had for having exposure to German and with that the vast majority of the world's core government bond market via active fund offerings. Despite this, already negative yields within a host of countries continued to plumb new depths in June with German 10 year paper yielding -0.3% and 10 year JGB's at -0.16%. $12.9 Trillion of global debt outstanding finished the month with a negative (nominal) yield, up from $8.3 trillion at 2018 year end.
- Despite this, the underlying portfolio saw decent returns from a host of areas of the fixed income spectrum which still provide some degree of positive real yield. The Vontobel EMD Fund finished the month +3.4% and the Western Asset Macro Fund finished +3.1%.

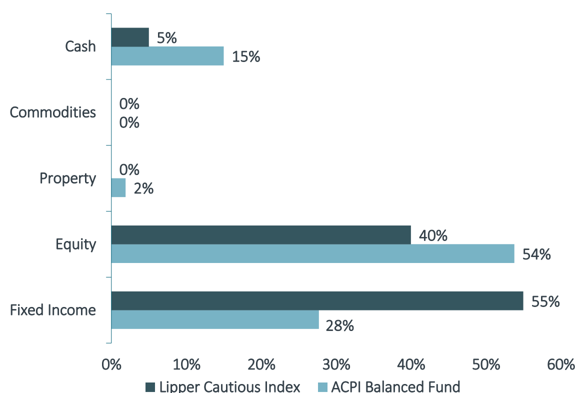
Conclusion

- The clear change in tack from a number of the world's central banks has for now provided a degree of support for risk assets and sentiment. This comes despite a challenging immediate outlook for corporate earnings and economic growth which largely signal ongoing contraction. Taking corporate earnings growth for instance, the current earnings season in the US is expected to see corporate earnings contract by around -2.6% from a year earlier and comes despite markets being at all-time highs and on peak margins and valuation multiples. The current earnings season has already seen around 77% of companies in the US issue negative guidance going into earnings, the worst quarter since 2006.
- The real risk of course is posed by the threat of a real recession in the US with the current period of expansion now being the longest in history with a host of economic variables emphasising this late cycle nature; unemployment at cyclical lows, a closed output gap, corporate indebtedness at all-time highs and cyclically high corporate margins. Should the US slip into a technical recession over the coming year as the yield curve would perhaps imply, then the clear risk for equities both in an absolute and relative sense is that earnings contract and a current multiple of 18x on the S&P 500 is probably 23x-25x once an imminent decline in corporate earnings growth is factored in. The relative call favouring equities then becomes an even less attractive proposition.
- With this in mind we continue to temper our enthusiasm for the US finding only pockets of value in equities overall. Where faster rates of growth are to be found, investors are once again comfortable to pay up for it with many of the Growth and Quality-orientated segments of the equity market now back at peak valuation multiples whilst investor positioning within these segments of the market remain elevated and are reflective of this cycle's winning trade.
- On a positive tack however if the US Federal Reserve is forced to cut interest rates in July then this should start to positively benefit a host of regions and asset classes which have been negatively correlated to tighter US monetary policy since 2015. For now the outlook for growth remains increasingly challenging with earnings forecasts and guidance continuing to contract although it's also clear that in some markets they may have troughed, most notably in Asia. As ever the objective remains to determine to what extent a slowdown is already priced into associated equity and credit valuation metrics.

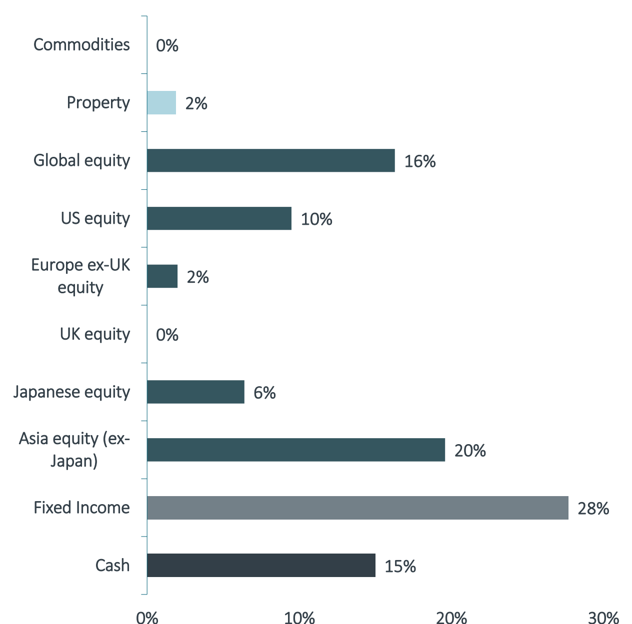
TOP THREE HOLDINGS

Vulcan Value Equity Fund	9.5%
US 10-Year Treasury	9.1%
Morgan Stanley Global Brands Income Fund	6.6%

ASSET ALLOCATION VS. BENCHMARK*



ASSET ALLOCATION BY REGION*



** totals may not equal 100% due to rounding*

MANAGEMENT

Marcus Szemruk
Fund Manager

Marcus joined ACPI in 2005. He has been the portfolio manager of the ACPI Balanced UCITS Fund since December 2008 and is also the head of external fund research. Previously, he was a generalist alternatives analyst at a London-based fund of hedge funds and before that he worked on the European equities team at Phillips & Drew, UBS Global Asset Management.

Marcus holds a degree in Banking and Finance from Loughborough University and holds the Securities Institute Certificate in Investment Management (CertIM).

Tessa Pilkington
Senior Investment Specialist

Tessa joined ACPI in 2015 as an Associate with responsibility for analysing long-only and long-short hedge fund strategies. In long only, Tessa has a bias towards covering the UK, Continental Europe and Japan regions. Before joining ACPI, Tessa worked on the research desk at Rathbones where she was responsible for analysing and evaluating long only funds in Europe, the UK and Japan.

Tessa graduated from the University of Edinburgh in 2009, with an MA (Hons). She holds the Investment Management Certificate (IMC) and is a CFA Charterholder.

RISK FACTORS YOU SHOULD CONSIDER BEFORE INVESTING

The value of investments and any income derived are subject to market and exchange rate movements and may fall as well as rise. Investors may not get back the full amount invested.

Investing in investment funds is subject to market risks.

Past performance results are no indication of future results, especially performance results referring to a period of less than twelve months (year-to-date-performance, start of investment fund within the last twelve months) are no reliable indicator for future results due to the short comparison period.

Issuance and redemption commissions are not included in the performance figures. All figures and information are given without any warranty and errors are reserved.

The annual management charge for the Fund will be charged to the Fund's income account. If insufficient income is generated by the Fund to cover the charge, the balance will be deducted from the Fund's capital and to that extent will constrain capital growth.

IMPORTANT INFORMATION

This document may only be distributed in the countries set out in the Fund prospectus. Please refer to the Prospectus for further details.

The tax treatment of the funds depends on the personal circumstances of each client and can be subject to future changes. This document is for information only. It does not represent an offer for the purchase or sale of the Fund.

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The manager of this fund is Link Fund Manager Solutions (Ireland) Limited, Registered address: 2 Grand Canal Square, Dublin 2, Ireland. The Fund is authorised by the Central Bank of Ireland as a UCITS pursuant to the UCITS regulations.

For South African investors:

In the Republic of South Africa this fund is registered with the Financial Sector Conduct Authority and may be distributed to members of the public.

In addition to the other information and warnings in this document, the Financial Sector Conduct Authority of South Africa requires us to tell South African recipients of this document that collective investment schemes are generally medium to long-term investments, collective investment schemes are traded at ruling prices and can engage in borrowing and scrip lending and that a schedule of fees and charges and maximum commissions is available on request from the manager. The manager does not provide any guarantee either with respect to the capital or the return of a portfolio.

Because foreign securities are included in the investments within this collective investment scheme, we are also required to disclose to you the risks that there may be additional risks that arise because of events in different jurisdictions: these may include, but are not limited to potential constraints on liquidity and the repatriation of funds; macroeconomic risks; political risks; foreign exchange risks; tax risks; settlement risks and potential limitations on the availability of market information.

The fund carries no performance fee.

The performance is calculated for the portfolio, individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. The value of participatory interests may go down as well as up.

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