

ICM201: Individual Assignment

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Word Count: 1081

SUMMARY

The Everything Rally¹ which transpired in the wake of coronavirus vaccine optimism is showing signs of sputtering as investors sober up to assess new economic and geopolitical risks on the horizon:

- **A New Cold War²** US and China have made it clear that the competition in first half of 21st century is between the democratic and political forms of capitalism³
- **Inflation Worries** The Federal Reserve of US is set to backstop the economy until its twin objectives of full employment and average annual inflation of 2% are met⁴

Where you could invest £1 million:

- **MRCGLDI LN** Confidence in US dollar will continue to erode as global central banks decrease their dollar reserves⁵ An exposure to precious metals is imperative to hedge this risk.
- **SAVCOMI LN** The clamour for natural resources and minerals will accelerate as nations wake up to the necessity of creating infrastructure suitable for the green economy.
- **SCHRTKI LN** Being the closest US ally to China in the Pacific, Japan has the biggest opportunity to benefit from the reshuffling of global supply chains in a bipolar world.

MARKET OUTLOOK

What happens when techno-bureaucratic hubris takes over, and fringe theories of printing ever more money to pay back national debt become mainstream? [A Monetary Collapse](#).

Skyrocketing prices of soft and hard commodities in the middle of a pandemic came as surprise to only those who had overestimated the ability of central banks to keep inflationary forces in check. We believe the talk of commodity supercycle has a kernel of truth in it. Consider the following:

- The biggest ever peacetime monetary injection in the economy will keep a floor on rising bullion prices, as too much capital chases scarce real assets.
- The massive supply crunch in the minerals sector, after the commodity bust of early 2010s, is another pillar of support as demand increases steadily and post-covid rebuilding gathers momentum.
- As the Chinese growth story casts doubts on the hegemony of liberal-democratic capitalist world order, the US is being forced to adopt unsound monetary policies and extreme measures to reassert its dominance. Massive outlays for greening the infrastructure are bound to push the prices of raw materials upwards as Biden administration gives in to the desires of progressive wing of democratic party in US.
- Although a direct confrontation is still unforeseeable, but CCP seems to have set its attention to Taiwan after successfully seizing Hong Kong. As CCP's grip on businesses in China tightens further, Japan is emerging as a front runner to take advantage of these geopolitical developments.
- Japanese firms, backed by ultra-cheap credit from Bank of Japan, have spent the last decade boosting profitability by acquiring businesses and developing supply-chains in south-east Asia.

BlackRock Gold and General Fund

Fund Assets	£1,110.58 m		
Ann. Compd. Return %	1-year	3-Year	5-Year
MRCGLDI LN	25.04	13.77	8.71
Risk-Free Rate	0.12	0.56	0.51
FTSE Gold Mining Index	18.98	15.66	11.52
Dividend Yield (%)	-		
Price to earnings	13.36		
Price to book	1.82		
Top 10 Holdings	% Net Assets		
Newmont Corp / NEM:US	9.59		
Barrick Gold Corp / ABX:CN	6.75		
Northern Star Ltd. / NST:AU	5.52		
Kinross Gold Corp. / K:CN	5.41		
Endeavour Corp. / EDV:CN	5.36		
Kirkland Lake Gold Ltd. / KL:CN	4.56		
Gold Fields Ltd. / GFI:SJ	4.25		
Wheaton Metals / WPM:CN	3.64		
Centerra Gold Inc. / CG:CN	3.39		
SSR Mining Inc. / SSRM:CN	<u>3.36</u>		
Total of Portfolio	51.83		

JPM Natural Resources Fund

Fund Assets	£604.3 m		
Ann. Compd. Return %	1-year	3-Year	5-Year
SAVCOMI LN	55.4	5.69	12.85
Risk-Free Rate	0.12	0.56	0.51
EMIX Mining & Energy Index	59.5	8.63	13.78
Dividend Yield (%)	1.97		
Price to earnings	-		
Price to book	2.09		
Top 10 Holdings	% Net Assets		
Rio Tinto PLC / RIO:LN	5.8		
Chevron Corp. / CVX:US	5.6		
Royal Dutch Shell PLC / RDSB:LN	5.6		
BHP Group PLC / BHP:LN	5.1		
Total SE / FP:FP	4.9		
Freeport-McMoRan / FCX:US	4.8		
Anglo American PLC / AAL:LN	4.4		
Newmont Corp / NEM:US	3.7		
Hess Corp / HES:US	3.2		
Grp Mexico / GMEXICOB:MM	<u>2.9</u>		
Total of Portfolio	46		

Schroder Tokyo Fund

Fund Assets	£1,002.31 m		
Ann. Compd. Return %	1-year	3-Year	5-Year
SCHRTKI LN	22.6	1.97	8.58
Risk-Free Rate	0.12	0.56	0.51
TOPIX TR JPY (GBP)	24.35	6	11.46
Dividend Yield (%)	2.2		
Price to earnings	19.1		
Price to book	1.4		
Top 10 Holdings	% Net Assets		
Toyota Motor Corp / 7203:JP	4.8		
Sumitomo Mitsui / 8316:JP	3.2		
Recruit Holdings / 6098:JP	3		
Nippon Telegraph / 9432:JP	3		
Hitachi Ltd / 6501:JP	2.7		
Tokio Marine / 8766:JP	2.5		
Murata Mfg. / 6981:JP	2.3		
Takeda Pharma / 4502:JP	2.2		
Hoya Corp / 7741:JP	2.1		
SMC Corp / 6273:JP	<u>2.1</u>		
Total of Portfolio	27.9		

STRATEGY AND SELECTION

To take advantage of these novel emerging risks, we strategically chose active, open-ended blend funds in precious materials **MRCGLDI**, basic materials **SAVCOMI**, and Japanese Equities **SCHRTKI**.

To take advantage of an undervalued pound sterling, funds domiciled in United Kingdom were chosen.

Our choices are mainly driven by macroeconomic and geopolitical considerations, a top-down approach.

ICE LIBOR 3Month was employed as a proxy for short-term, risk-free interest rate.

Blackrock, **JPMorgan** and **Schroder** were chosen because of long track-record of their funds in our area of interest. Furthermore, not many funds in these sectors were eligible to be chosen as per our mandate.

THE FUNDS

MRCGLDI LN invests in global equity securities which derive a significant proportion of their income from gold mining or commodities such as precious metals.⁶ We have chosen **Class A Distributing** because we want steady income from dividends over investment period, as returns can be unpredictable. An investment in Gold is essentially an investment for the doomsday.

SAVCOMI LN aims to invest in shares of companies throughout the world engaged in the production and marketing of commodities.⁷ We are fairly confident in our analysis of impending inflation driving raw commodity prices upwards this decade, so we choose to be aggressive by opting for **Fund A Net Accumulation** class

SCHRTKI LN aims to beat Tokyo Stock Exchange 1st Section (Gross Total Return) index over a 3 to 5 year period, by investing in equities of Japanese companies.⁸ We have chosen **Class A Income** because we expect the earnings of Japanese equities to grow considerably quickly over the next years.

THE VERDICT

If you believe President Biden's policies will trigger runaway inflation and end up wrecking the US Dollar, and preposterous expenses don't bother you, go ahead and invest the entire £1m in **MRCGLDI LN**.

- ✓ But if you are willing to put down your doomsayer hat and want to take on risk sensibly, don't think twice and go for **SAVCOMI LN**. No one can know the future for sure, but geopolitical winds suggest that a global infrastructure boom is upon us.

Or you could choose the predictability and stability of Japan by going for **SCHRTKI LN**.

PERFORMANCE

Annualised Compounded Return comparison over past 5 years shows that all these funds have struggled to beat their respective benchmarks, with only **MRCGLDI** being the outlier during past 1 year.

Fund Beta metric suggests that **SAVCOMI** and **MRCGLDI** have become riskier in last 5 years, thus opening possibility of higher returns.

Annualised Volatility has increased steadily for all three funds over the years, which could mean a market cycle nearing its final stage.

SAVCOMI has witnessed the fewest negative return months overall, with a stellar recent performance in terms of average monthly gains.

Sharpe Ratio and Sortino Ratio point unequivocally towards **SAVCOMI** being a cut above the other two funds, but if stability is sought, **SCHRTKI** could be considered as well.

Negative Information Ratios for all funds, barring **MRCGLDI** last year, depict the failure of these actively managed funds to beat their passive benchmarks consistently. **SCHRTKI** has the lowest, consistent Tracking Error, which burnishes its stable credentials

Expected Shortfall, Value at Risk metrics and Maximum Drawdown – all point towards the stable characteristics of **SCHRTKI**.

EXPENSES AND FEES

Out of these three funds, only **MRCGLDI** levies an Entry Charge of up to 5%.⁹ Add to that the annual management fees and just on that basis alone, a prudent investor might reject this fund. It is not as if **MRCGLDI** is beating its passive benchmark consistently that we can consider for a moment investing in it. Moreover it has the highest Ongoing charges as well out of the 3 funds. But it can not be ignored that its performance last year was sensational.

SCHRTKI¹⁰ and **SAVCOMI**¹¹ are both attractive prospects when expenses are taken into account viz-a-viz performance.

BlackRock Gold and General Fund

Fund Launch	1988		
MRCGLDI LN	1-year	3-Year	5-Year
Annualised Volatility (%)	46.39	33.44	33.47
Fund Beta	0.97	0.93	0.88
% of Positive Months	50	52.7	50
Avg. Monthly Gain/Loss (%)	2.58	1.49	1.12
Shortfall Risk VaR 5%	0	0.05	0.06
Sharpe Ratio	0.53	0.39	0.24
Information Ratio	0.55	-0.16	-0.25
Sortino Ratio	5.1	2.81	1.67
Tracking Error (%)	10.96	11.4	11.08
Maximum Drawdown (%)	21.29	21.29	21.29
Abs. Historical VaR 5%	0.089	0.096	0.11
Abs. Normal VaR 5%	1.19	1.14	1.14
Expected Shortfall	-	0.16	0.15
Fund Strategy	Blend		
Minimum Investment	£500		
Entry Charge	5.00%		
Exit Charge	0.00%		
Ongoing Charge	1.92%		
Fund Type	UCITS		
Fund Class	Class A Distributing GBP		

JPM Natural Resources Fund

Fund Launch	1965		
SAVCOMI LN	1-year	3-Year	5-Year
Annualised Volatility (%)	26.6	24.15	22.49
Fund Beta	1.07	1.01	0.99
% of Positive Months	75	61.11	58.33
Avg. Monthly Gain/Loss %	3.99	0.69	1.22
Shortfall Risk VaR 5%	0.083	0.19	0.16
Sharpe Ratio	2.07	0.21	0.54
Information Ratio	-0.64	-0.56	-0.18
Sortino Ratio	27.01	1.18	3.35
Tracking Error (%)	6.42	5.17	5.11
Maximum Drawdown (5%)	9.66	35.95	35.95
Abs. Historical VaR 5%	0.047	0.089	0.069
Abs. Normal VaR 5%	1.11	1.11	1.1
Expected Shortfall	-	0.12	0.12
Fund Strategy	Blend		
Minimum Investment	£1,000		
Entry Charge	0.00%		
Exit Charge	0.00%		
Ongoing Charge	1.55%		
Fund Type	OEIC		
Fund Class	Fund A Net Accumulation		

Schroder Tokyo Fund

Fund Launch	1989		
SCHRTKI LN	1-year	3-Year	5-Year
Annualised Volatility (%)	15.18	13.7	13.08
Fund Beta	0.9	0.98	0.98
% of Positive Months	66.6	52.7	58.3
Avg. Monthly Gain/Loss %	1.8	0.24	0.76
Shortfall Risk VaR 5%	0.08	0.13	0.08
Sharpe Ratio	1.47	0.1	0.61
Information Ratio	-0.51	-1.08	-0.68
Sortino Ratio	9.64	0.49	3.53
Tracking Error (%)	3.47	3.72	4.22
Maximum Drawdown (%)	8.29	18.22	18.22
Abs. Historical VaR 5%	0.046	0.072	0.065
Abs. Normal VaR 5%	1.07	1.06	1.06
Expected Shortfall	0.07	0.07	0.07
Fund Strategy	Blend		
Minimum Investment	£1,000		
Entry Charge	0.00%		
Exit Charge	0.00%		
Ongoing Charge	1.64%		
Fund Type	UCITS		
Fund Class	Class A Income GBP		

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