fLAB

It´s All About Asset Allocation

December 2019, Newsletter#44

Dear ;

In recent years, the financial industry, following other areas of knowledge, has been coining a series of concepts that are offered to us as the quintessence of efficiency, but it might not be the case.
First of all I want to point to the **famous 'disruption'**. To clarify: something disruptive was the appearance of the wheel, the printing press and the internet. A thematic new fund, despite being able to be awesome, is not disruptive. I'm sorry. Not even 99% of everything announced as such. In fact, neither smart cities, digitalization, sustainability, machine learning, nor your brand new tablet have anything disruptive. If anything, **and that will be seen after several decades**, they are evolutions, improvements and modifications of existing systems and processes. The word itself was coined in 1995 by Harvard professor Clay Christensen and from there, marketing has taken care of the rest.

In our fund management industry, fashion trends come to us very frequently. As John C. Bogle, founder of Vanguard said, this is not a hobby anymore, it is a business. And as such, professionals in the sector must be paid. Almost all funds charge management and performance fees for their work. But we also generate commissions for other industry players: custodian, administration, audit cost, compliance, regulatory, monitoring, emir, legal, distributors and banking costs. Some old-fashioned still add subscription and redemption fees.
And it is then, when some brilliant executive, accompanied perhaps by a young man with an orange beard and nice trendy glasses approach the cubicle where you are pounding on your Bloomberg and tells you: «Hi boy, I think we are going to replace this equity fund you are managing with a IA mega trend var6 thematic ESG fund »
Because let's not forget it, now it has to be socially responsible with ESG criteria, managed through Artificial Intelligence and eco-friendly with the planet and FIFA.

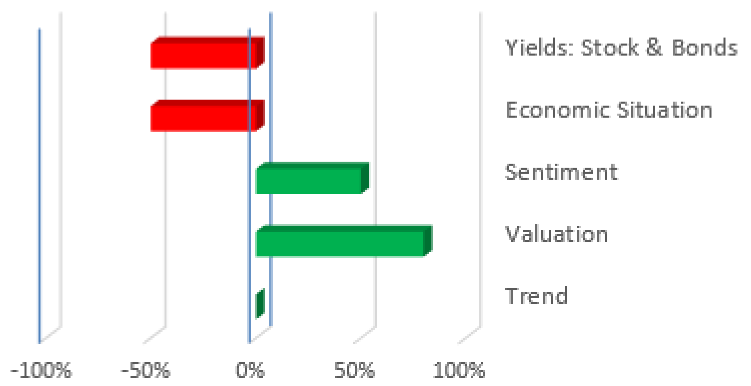
And this seems to be just the beginning. The ESG revolution is led by consultants that offer rankings of stocks and bonds based on this criteria. Something that initially seems good has the risk of becoming meaningless because of its inefficiency and subjectivity. **But, for sure, it will add another line in the TER of the fund.** On the other side, we find a few Asterix in people like Warren Buffet and his Berkshire Hathaway, one of the most profitable investments, but a clear underperformer under ESG criteria.

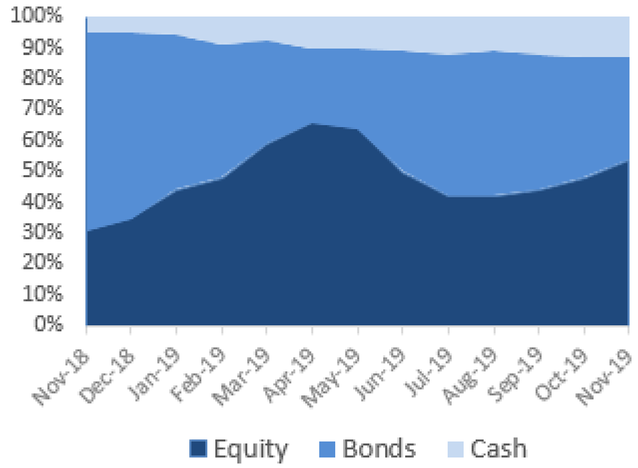
Well, let's go back to our monthly comment.

Our Global Asset Allocation Fund, fLAB Core H-USD, has appreciated 0.95% in November, well performing 11.11% YTD.

For December, our Asset Allocation model continues to increase stocks (+6%) against bonds (-6%) following the improvement of trend and valuation indicators. We head into yearend invested 54% in equities, 33% in government bonds and the remaining 13% in cash.

fLAB Core Asset Allocation Model - December 19		Model	Benchmark
	Stocks	54%	55%
	Bonds	33%	35%
	Cash	13%	10%





Equity Regional Allocation vs MSCI World AC			
Market Weigthed All Geo Areas			
Benchmark (US 53.2%, Eur 15.5%, Emerg Mk 9.8%, Jap 7.9%, UK 6.8%, Pacific 3.9%, Can 3%)			
Equity World Sector Allocation			
Health Care & Utilities	*OW*	*Consumer Discretionary*	*UW*
Government Bond Allocation vs Barclays Global Government Bond Index			
Europe	*OW*	*US*	*UW*
Benchmark (US 49%, Europe 26%, Japan 19%, UK 6%)			

Within equity allocation, we have moved Consumer Discretionary to underweight on concerns of slower holiday sales growth and weaker performance mega-caps in the sector. Concurrently, we have upgraded Health Care to overweight. We feel the sector will outperform as its prices catches up with its strong earnings growth over the last year. We are still looking to get more cyclical. If we see signs of earnings growth rates bottoming, cyclical sectors and interest rates should break out to the upside. **Until then, we remain more defensively positioned. From a geographical point of view, we remain quite neutral**. On the fixed income side, we continue to overweight slightly European government bonds and underweight Treasuries. Yields are likely range-bound. In August, they had gotten too low relative to economic fundamentals and have since rebounded. Additionally, the ECB and FED are likely to be on hold for the intermediate-term, global growth has been showing signs of stabilizing (and could surprise to the upside next year), and major economic uncertainties could dissipate (U.S, China trade, Brexit…). At the same time, yields are not likely to rise sharply higher from here. Liquidity remains plentiful, demand for bonds remain strong, inflation will be contained, and political uncertainty will continue. Our fixed income portfolio duration is at 8.85, being 2.89 for the overall portfolio. In terms of currency, we keep our real dollar exposure around 15%.

Our Relative Return Fund, fLAB Satellite H-USD, which has decreased 0.27% during the past month, is accumulating a positive return of 1.55% YTD.

The Fund is strategically invested (76%) in a low risk low duration (1.77) diversified fixed income portfolio plus some tactical and decorrelated bets (16%), in order to produce an excess return above the free risk rate (G7 3 month T-Bill). In November, we continued to see investor's preference for risk on assets (specially equities) and outflows from fixed income investments, that's why our conservative portfolio . We remain positive regarding investment grade corporate credit, as conditions remain generally favorable. Nevertheless, credit remains richly priced with spreads historically tight. Despite the erosion in corporate fundamentals, the economic outlook should support credit in 2020. In terms of duration, we will maintain around 1-3 years until we get more clarity on the economic and/or signs of a yield breakout to the upside.

5 year Ranking: June 2014 to June 2019

LIPPER LEADERS

	fLAB Core	fLAB Satellite
Total Return	5	3
Consistent Return	5	3
Preservation	4	5
Expense Ratio	5	3
	Mixed Asset Flexible Global	Absolute Return Low Risk

MORNINGSTAR

fLAB Fund SICAV Core A | ★★★★

fLAB Fund SICAV Core H-USD | ★★★★

CITYWIRE GOLD

Funds People 2019

FE CROWN FUND RATING

Note : We remind you that we have launched fLAB Core & fLAB Satellite clean share classes in both EUR and USD*, applying the same management fees as the cheapest Institutional class. Please check new ISIN codes by clicking the links down here.*

Monthly factsheets

Please find attached the Fact Sheets of our main Luxembourg products fLAB Core & fLAB Satellite, available in EUR, USD, GBP and SGD

fLAB Core

fLAB Satellite

Aviva's investment platform - Navigator

You can find all Technical Info, KIIDs, Prospectus, Investment Strategy and all about the Ucits Fund at: http://www.flabfunds.com

Please keep us informed if you need further information.

Kind regards,

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fLAB

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