fLAB

It´s All About Asset Allocation

September 2019,
Newsletter#41

Dear ;

Today, there are some similarities to the market conditions at the onset of last year's fourth quarter decline. These can be found among:

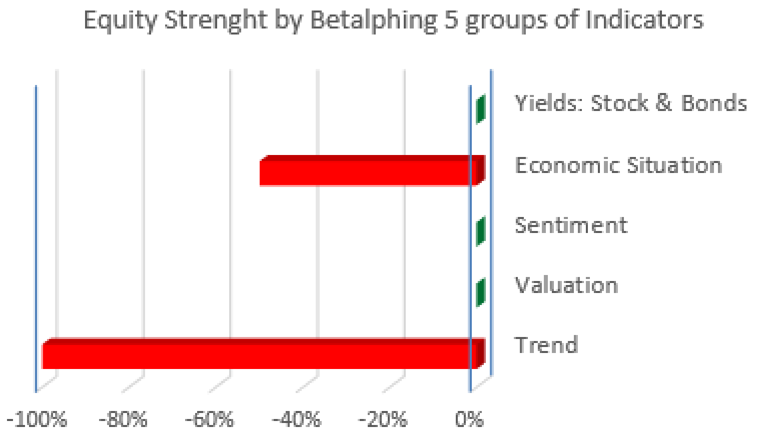
1. The **poor participation** of some stocks and markets pointing to a sustainable rally and in the evidence that a bottoming process is lacking.
2. **Cap weighted vs equal-weighted indices**: we were concerned last year that as the broad market weakened globally, its dependence on a handful of heavyweights posed a downside risk, given the potential for those stocks to weigh down the market on the downside in the same way that they propped it up on the upside. As the cap-weighted ACWI started sliding in October, it performed even worse than the equal weighted index, during the last quarter. Similarly, this August cap-weighted index has been underperforming, a trend that's likely to become increasingly decisive if the global downtrend continues.
3. More **bond outperformance**: the Global Stock/Global Bond Ratio is close to produce a death cross signal.
4. **Credit spreads and volatility**: the spread between the Barclays Global High Yield and the Barclays Global 10-year Government Bond Yield has widened. The greater the economic worry to come, the more that the credit spread will look like it did in Q4, with a corresponding rise in downside volatility.
5. **Dropping RO/RO Ratio**: the Risk On/Risk Off Index has dropped to its lowest levels since early January, similar to its Q4 drop to 2018 lows.
6. The macro environment: the trend of global economic data, evident in the Global PMI Index and its breadth is similar to Q4, and even worse now. The same can be said of the Global Yield Curve Composite (10yr minus 3Month) now at levels last seen in 1991, a s**ign of rising economic worry.**
7. **Negative earnings revision and negative beat rate momentum**
8. **Worsened valuations**: expensive a year ago, expensive today. The risk of a U.S.-driven drop is especially pronounced when we look at global market valuation, showing that the U.S. is most priced for perfection among the global indices.

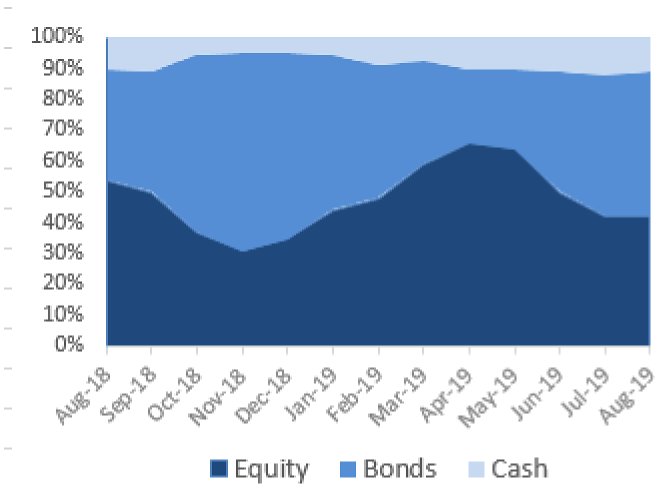
We would need improving valuations, breadth recovery and a more encouraging message from trend indicators, including broad based evidence of a shift from risk aversion to risk appetite to overweight equity (on increasing certainty that economic conditions will improve and better earnings growth will follow). Otherwise, we would be cautious.

Our Global Asset Allocation Fund, fLAB Core H-USD, has performed quite flat in such a volatile month for stocks (+0.07%), and is performing 9.18% YTD.

For September, our asset allocation model keeps stocks at 42%, increases 1.5% bond exposure up to 47% and reduces slightly cash allocation up to 11%. As we have mentioned before, trend and economic indicators are not very encouraging at present.

fLAB Core Asset Allocation Model - September 19	Model	Benchmark
Stocks	42%	55%
Bonds	47%	35%
Cash	11%	10%





Equity Regional Allocation vs MSCI World AC			
Pacific Ex-Japan	*OW*	*Japan*	*UW*

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			
ConsDiscr. & Utilities	*OW*	*Industrials & Energy*	*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 maintain our geographical bets: overweight Pacific and underweight Japan. At sector level, we favor Consumer Discretionary and Utilities and underweight Energy and Industrials. We will broaden/narrow our cyclical/defensive exposure as the economy evolves. On the fixed income side, we have increased 1.5% US Treasuries exposure on the 7-10yr tranche, but kept our strategy to overweight European government Bonds above the rest. Our bond duration portfolio stays at 9, being 4.13 for the overall fund. In terms of currency, our real dollar exposure stands at 14%.

Our Relative Return Fund, fLAB Satellite H-USD, has appreciated 0.54% last month, accumulating a positive return of 2.01% YTD.

The Fund is mainly invested (75%) in a low risk low duration diversified fixed income portfolio plus some decorrelated and tactical positions (16%). The rest goes into cash. In August, the fund has benefited mainly from the rally in Gold (which represents 4.5% of the portfolio) along with bond outperformance, both sovereign and corporate. Yields have gone to record lows in summer and many of us are wondering how long they can go downside. This cannot go on forever, as consumers and businesses will eventually alter their behavior. Bond momentum has soared and sentiment has moved into extreme optimism zone. We believe we could be in a trading range until ECB and FOMC meetings. We keep flexible in terms of portfolio duration, now at 1.81.

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 | ★★★★

HIGHLY RATED FUND SharingAlpha

CITYWIRE GOLD

Funds People 2019 A B C

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

allfunds BANK Leaders in Open Architecture

MFEX MUTUAL FUNDS EXCHANGE

inversis BANCO

AVIVA 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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