

Monthly

Gatemore Pensions Summary (GPS)

February 2018



GPS VIEWPOINT

Market volatility could herald serious trouble for risk parity funds

The recent volatility in the stockmarket has put a spotlight on model-driven, volatility-linked trading strategies. Risk parity, one of the most popular of such strategies, has been a focus of attention. In essence, the strategy allocates between asset classes based on modelled levels of correlation and volatility, using historical data. Over the past few years, the risk parity industry has ballooned to \$600 billion, propelled by low volatility and a global bull-run in equities and bonds. The Salient Risk Parity Index posted an **annual return** of 10.15% in 2017.

However, by definition, volatility is erratic and can abruptly wrong-foot investors who believe they can correctly predict it. Risk parity's use of historical data means that if risk does suddenly spike or predicted correlations between equities and bonds break down, the strategy suddenly begins to fail. On February 5th, global stocks plunged and, dangerously for risk parity funds, the CBOE Volatility Index rose 115.6%, its highest ever one-day climb.

This bout of market volatility may be a sharp wake-up call for risk parity strategies. Even if the sell-off turns out to be a blip rather than a full-blown market correction, such market events highlight the hazards associated with model-based investing.

QUOTE OF THE MONTH

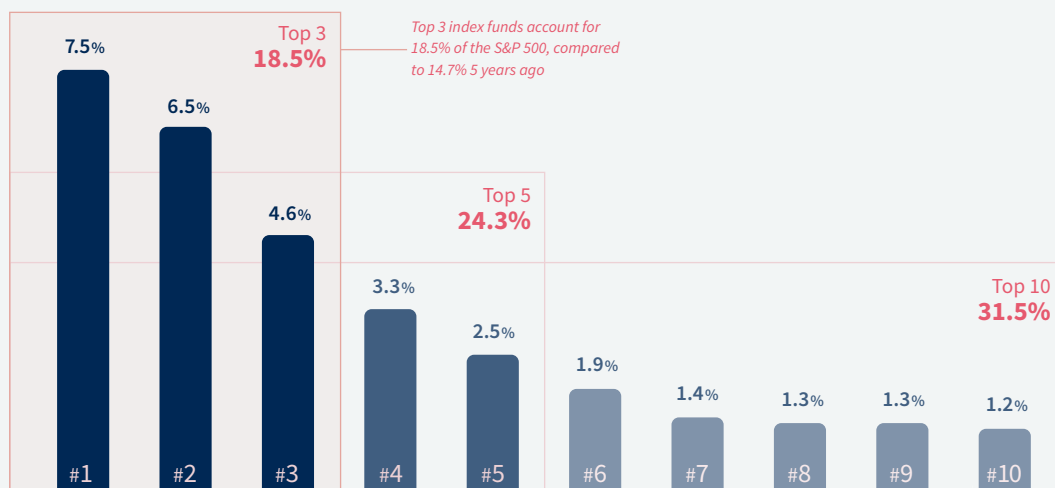
The investment universe is much greater for smaller schemes as they can themselves invest in smaller, better performing funds. ”

Mark Hodgson
MANAGING DIRECTOR, GATEMORE

"Little Issues", Pensions Age, February 2018 issue

CHART OF THE MONTH

Top 10 S&P 500 shareholders own 31.5% of the market



S&P 500 Top 10 Shareholders

- #1 Vanguard
- #2 BlackRock
- #3 State Street
- #4 Capital Group
- #5 Fidelity
- #6 T. Rowe Price
- #7 Wellington Management
- #8 Northern Trust
- #9 Bank of America
- #10 BNY Mellon

Source: 2017 Activism Year in Review, Lazard.
Data as of Q3 2017.

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Investors should read and carefully consider the Fund's offering documentation in full prior to making any investment decision in relation to the Fund.

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Indices in the periodic table – (UK) FTSE 100 Total Return Index GBP; (EQ) MSCI Daily TR Net World Ex UK USD; (EM) MSCI Emerging Net Total Return USD Index; (>15Y) FTSE Actuaries Govt Securities UK Gilts TR over 15 Yr; (IG) Bloomberg Barclays Global Agg Corporate Total Return Index Value Unhedged USD; (HY) Bloomberg Barclays Global High Yield Total Return Index Value Unhedged; (HF) Hedge Fund Research HFRX Global Hedge Fund Index; (PRO) S&P Global REIT USD Total Return Index; (COM) Bloomberg Commodity Index Total Return; (PE) Thomson Reuters Private Equity Buyout Index.