
AUBREY
CAPITAL MANAGEMENT
Specialist Discretionary Investment Management

Introduction

- **Aubrey Capital Management** is a privately owned, Edinburgh based, institutional asset manager and family office founded in 2006. Aubrey's highly experienced management and investment team look after £728.7m of assets (19th May 2020). In addition to Global, Emerging Markets and Pan-European institutional mandates Aubrey provides individual investment portfolio services across personal, ISA, pension, trust, company and charity accounts.

- **Growth Equity Funds**

- **Bespoke Discretionary Investment Management**

- **Managed Portfolio Service**

Source: Aubrey Capital Management Ltd

Entering 2020 – a Good Economic Outlook

Global GDP growth forecast for 2020 was c. 3% - led by a strong US economy

- Employment: January & February *each* saw the US economy adding 273,000 non-farm payrolls

- Housing: December & January were the highest back to back months for new home starts since 2007

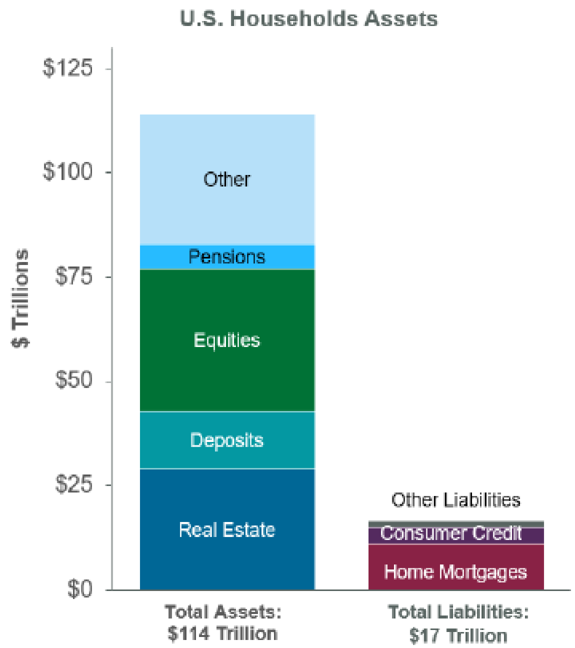
- Retail Sales: Up 4.4% year on year in January

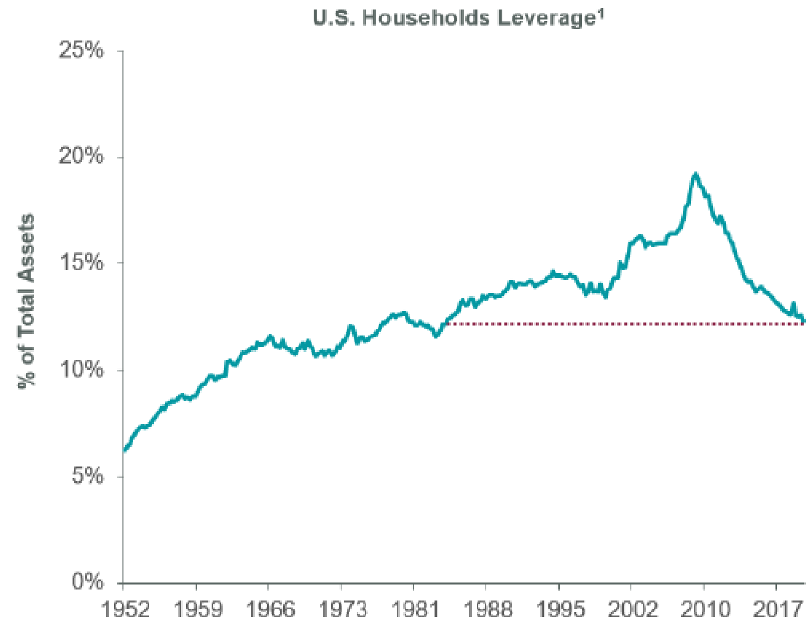
- Overall Activity: Whilst the February ISM manufacturing index was only mildly positive at 50.1, the ISM non-manufacturing index was 57.3

Source: Brian Wesbury, First Trust; Aubrey Capital Management Ltd

US Household Debt an Issue?

Households Assets vs. Liabilities

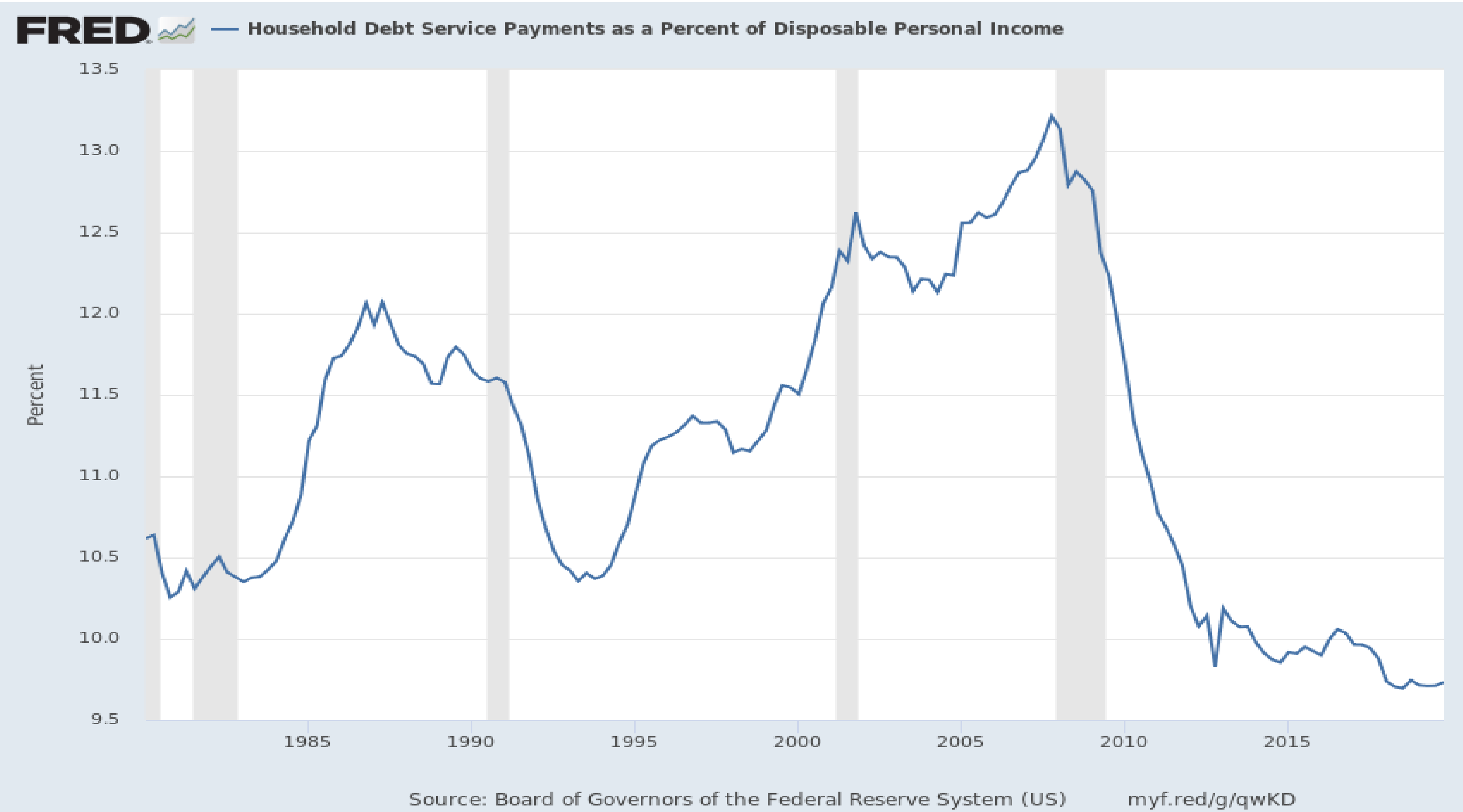




- American households are in a strong financial position with robust balance sheets.
- Household leverage is the lowest it has been since 3Q 1984.

Source: As of Date: Dec. 31, 2019, latest available as of Mar. 31, 2020. Source: Federal Reserve. Assets vs. Liabilities of households and non-profit organisations; *Aubrey Capital Management Ltd*

Debt Servicing – a Very Different Picture to 2008



Source: Federal Reserve; Aubrey Capital Management Ltd

Change and the Acceleration of Existing Key Trends

The global economy and markets have been hit by a series of intense and related shocks

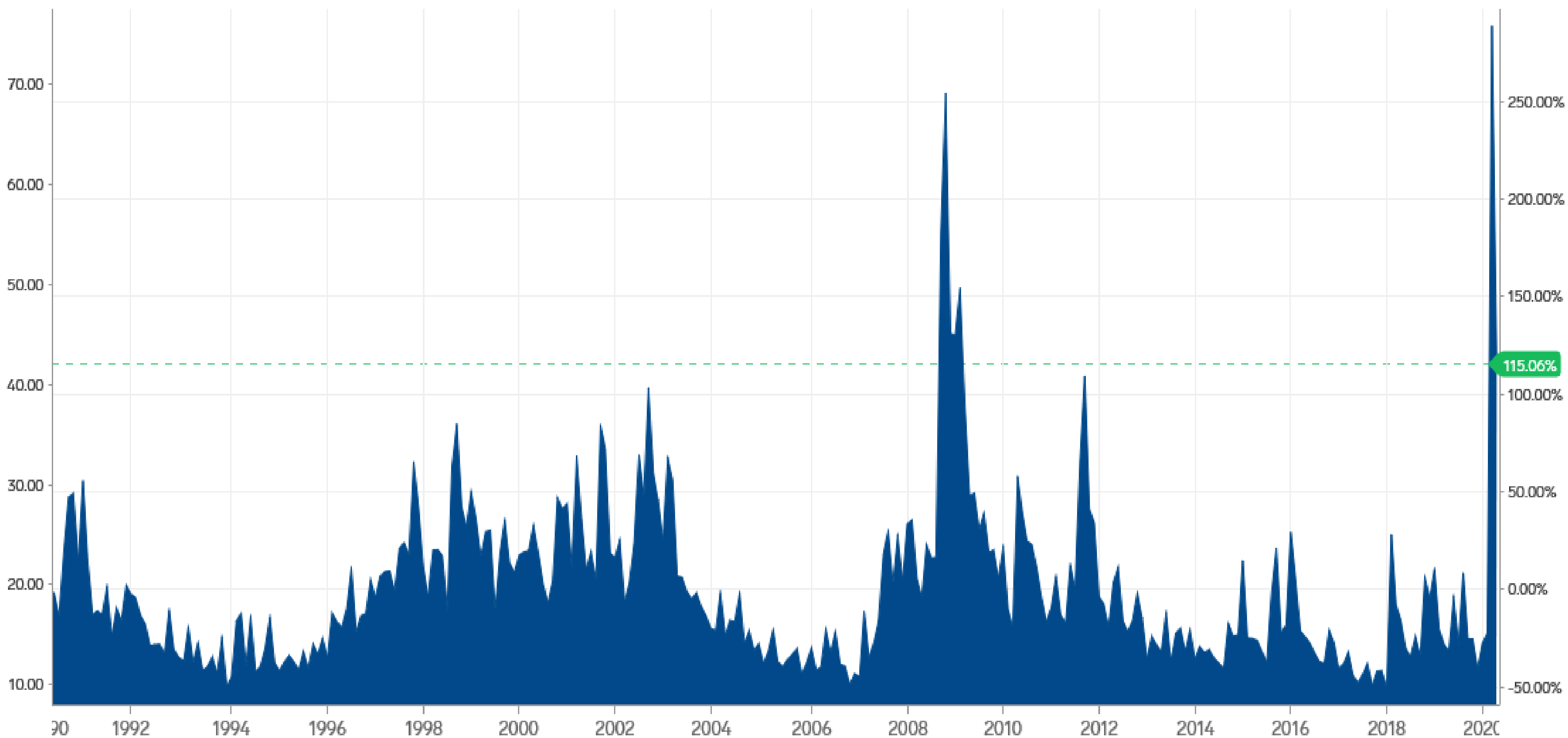
- COVID-19 and associated policy actions have caused a record collapse in demand

- Oil price collapse has affected producing countries

- Rapid deleveraging and uncertainly in financial markets

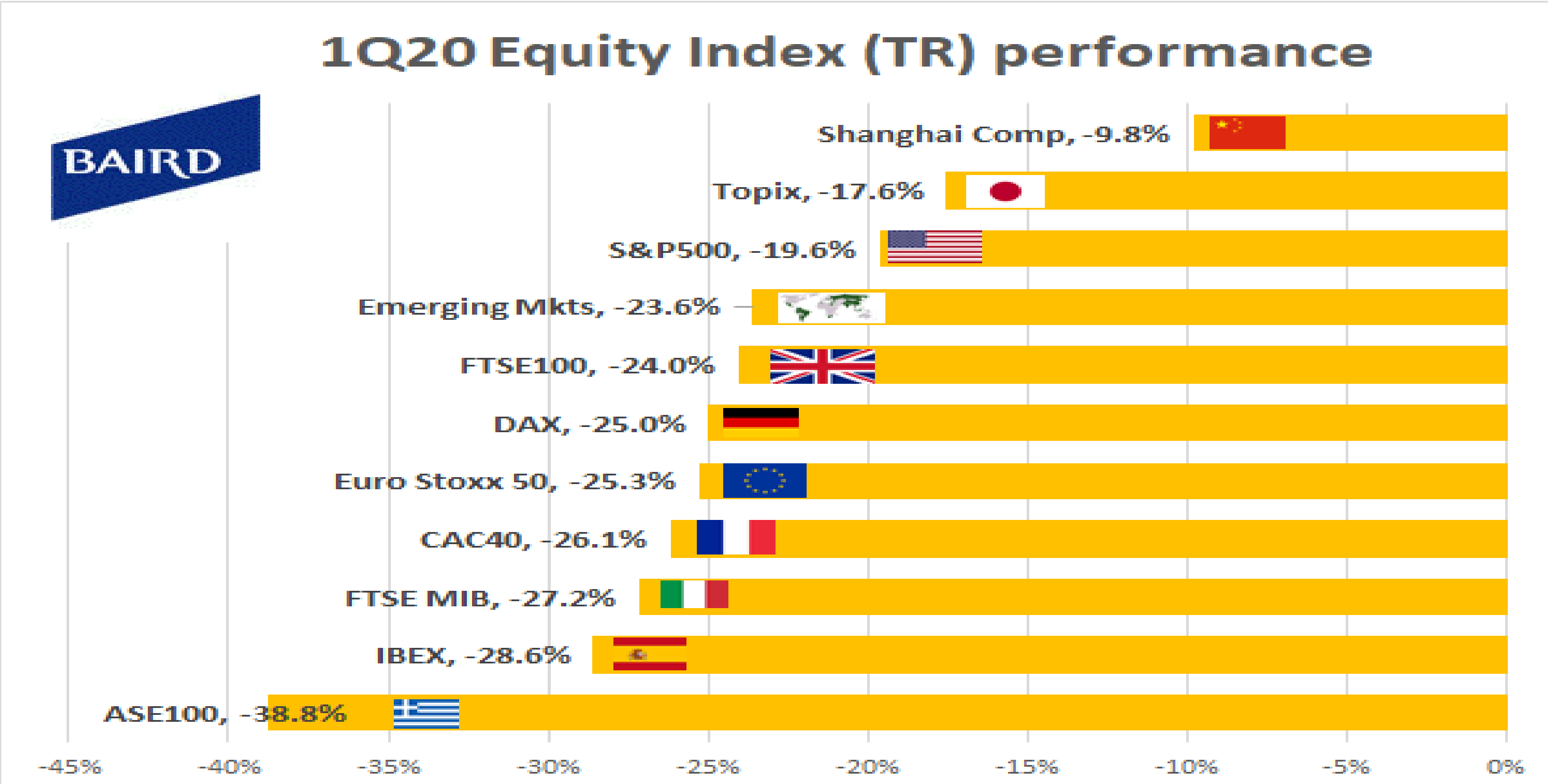
Source: Aubrey Capital Management Ltd

March 2020 - A Huge Spike in Short Term Volatility



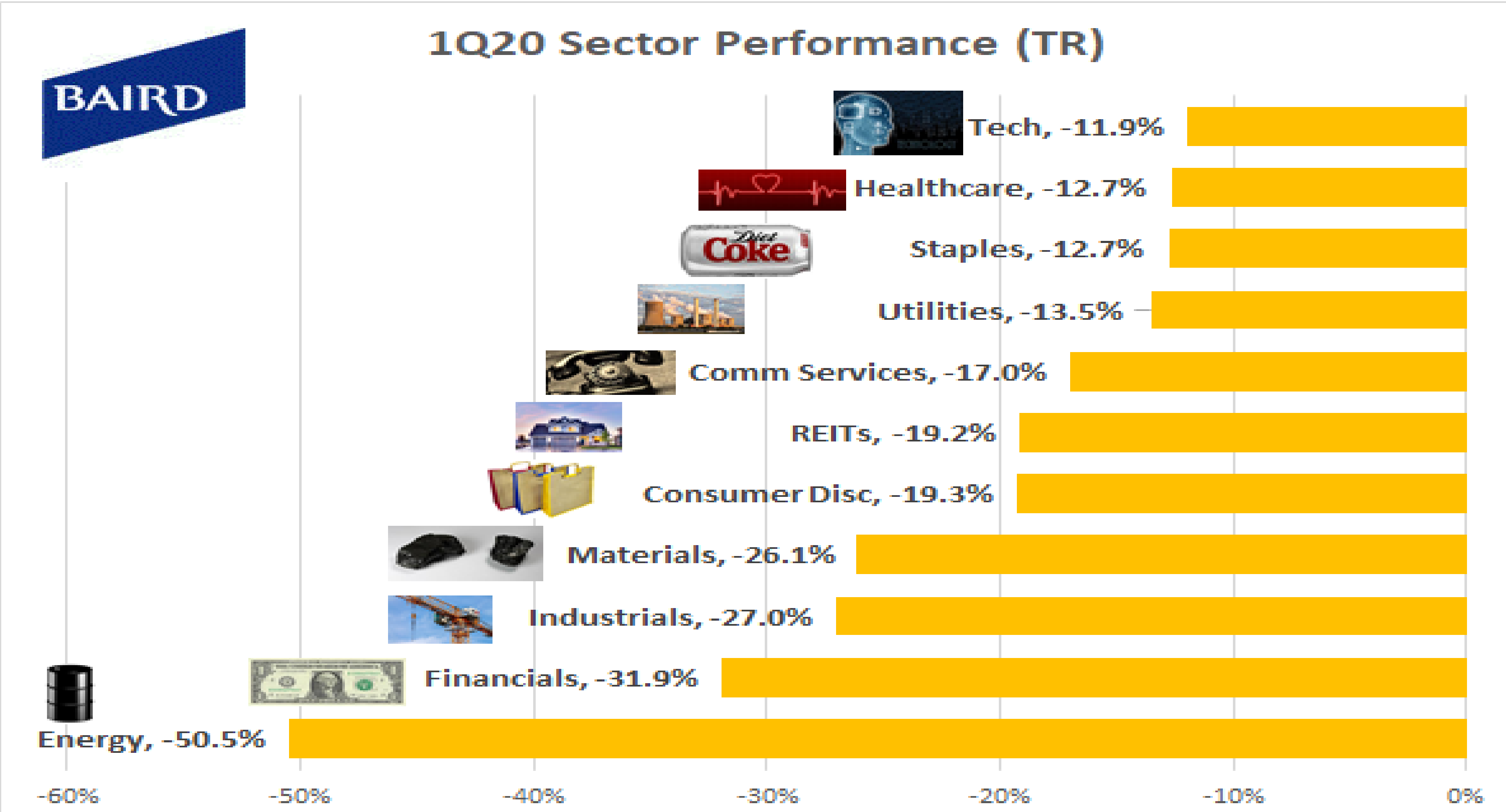
Source: Markets Insider; Aubrey Capital Management Ltd

Q1 – A Quarter to Forget



Source: Baird Securities/Aubrey Capital Management Ltd

Sector Returns – A new leader: Technology



Source: Baird Securities/Aubrey Capital Management Ltd

Phase 1 – Avoiding a Catastrophic Liquidity Crisis

What Saved Us?

- The **speed** and **size** of central bank & government action

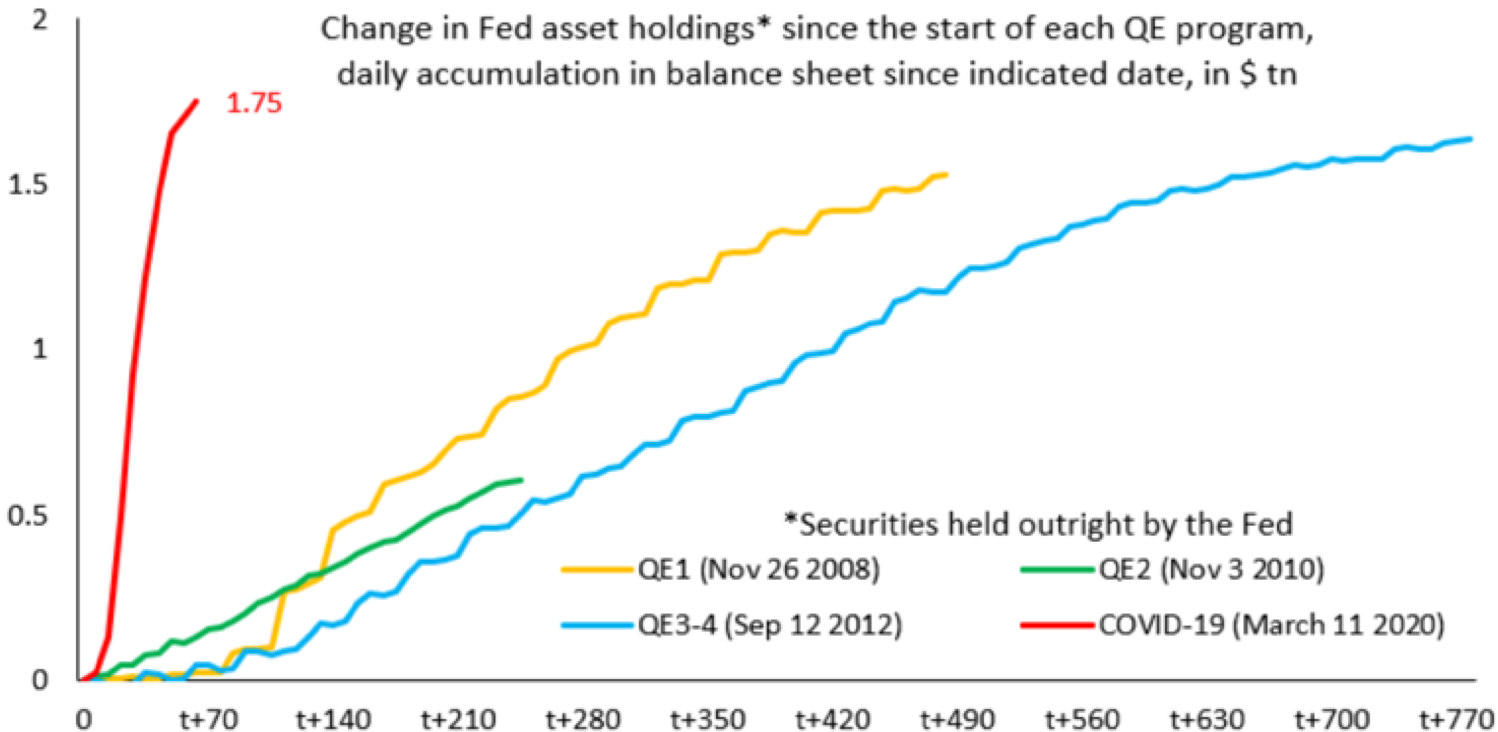
- **Banks** – part of the solution

Source: Aubrey Capital Management Ltd

Central Banks – QE (again)

The impact of COVID-19

Hard to stand in the way of QE on this scale



Source: @EconStat 12 May 2020

Source: Aubrey Capital Management Ltd

Governmental Response

Fiscal Stimulus Taking the Reins

Global Fiscal Stimulus Announced, % of GDP

Country	Fiscal Stimulus, % 2019 GDP	Weight in Global GDP (%)	Contribution to Global Fiscal Stimulus, % GDP
U.S.	9.3	24.8	2.3
China	1.4	16.3	0.2
Japan	18.4	6.0	1.1
Germany	18.9	4.5	0.8
UK	4.0	3.2	0.1
France	1.9	3.1	0.1
Italy	1.4	2.3	0.0
Canada	3.6	2.0	0.1
Korea	2.6	1.9	0.1
Spain	1.4	1.6	0.0
Australia	0.8	1.6	0.0
Total		**67.3%**	**4.8%**

- **With global central banks pushing up on the limits of monetary policy, fiscal stimulus will likely play a larger role moving forward.**

ClearBridge Investments

Source: JP Morgan. Past performance is not a guarantee of future results. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Source: Aubrey Capital Management Ltd

Panic In Pictures - Primary Healthcare Properties plc

As at 20-May-2020 09:33:40 - All data delayed by at least 15 minutes.

Source: www.londonstockexchange.com/Aubrey Capital Management Ltd

China vs RoW – A Slower Path

Coronavirus new infections

Global / Italian decline slower than in China

Source: WHO & JH calculations, as at 20 April 2020

Source: Aubrey Capital Management Ltd

Q2 – 'Only' a recession?

- After falling 4.8% in Q1, estimates for US GDP for Q2 are for a 30-35% contraction.
- US unemployment has risen to 30million, c. 14% of the workforce, it will potentially rise a further 5million+
- Flash PMI
- All economic records will be broken the US and elsewhere by the speed and depth of the contraction
- A depression? – no. This was not caused by supply or demand issues and the economy will bounce back – the Great Depression saw four consecutive years of negative real growth

Source: Advance Estimate Bureau of Economic Analysis; Aubrey Capital Management Ltd

The Shape of the Recovery

- The recovery is unlikely to be V shaped
- Significant differences in success controlling spread of virus
- Difficult to predict until the depth of the economic upheaval and the pace of removing lockdown conditions are known
- Differential between lost and deferred spending
- Businesses and jobs will be lost

But

- Furlough, small business loans and direct state aid have avoided catastrophe
- There is not a lack of potential demand in the economy
- Interest rate and lower energy costs will benefit many

We believe a strong recovery will begin in H2 and that 80% of economic activity will be recovered in the first 12 months. It will take 2-4 years before the activity and employment may regain pre-crisis levels

Source: Aubrey Capital Management Ltd

What of Markets?

Main supports:

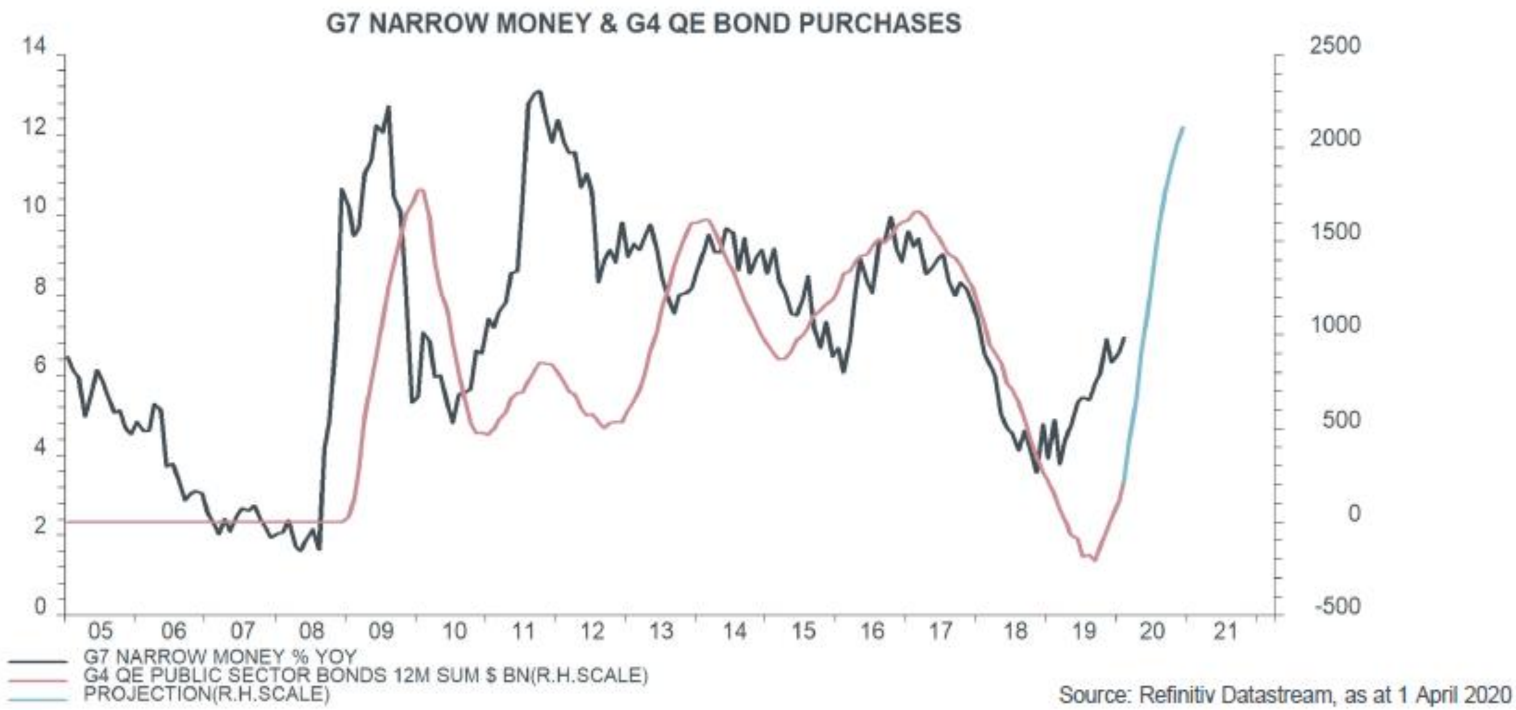
- Markets typically bottom 4-6 months before the economy
- Boost from lower energy costs
- Lower inflation and interest rates
- <u>Money Supply</u>

Source: Aubrey Capital Management Ltd

Money Moves Markets

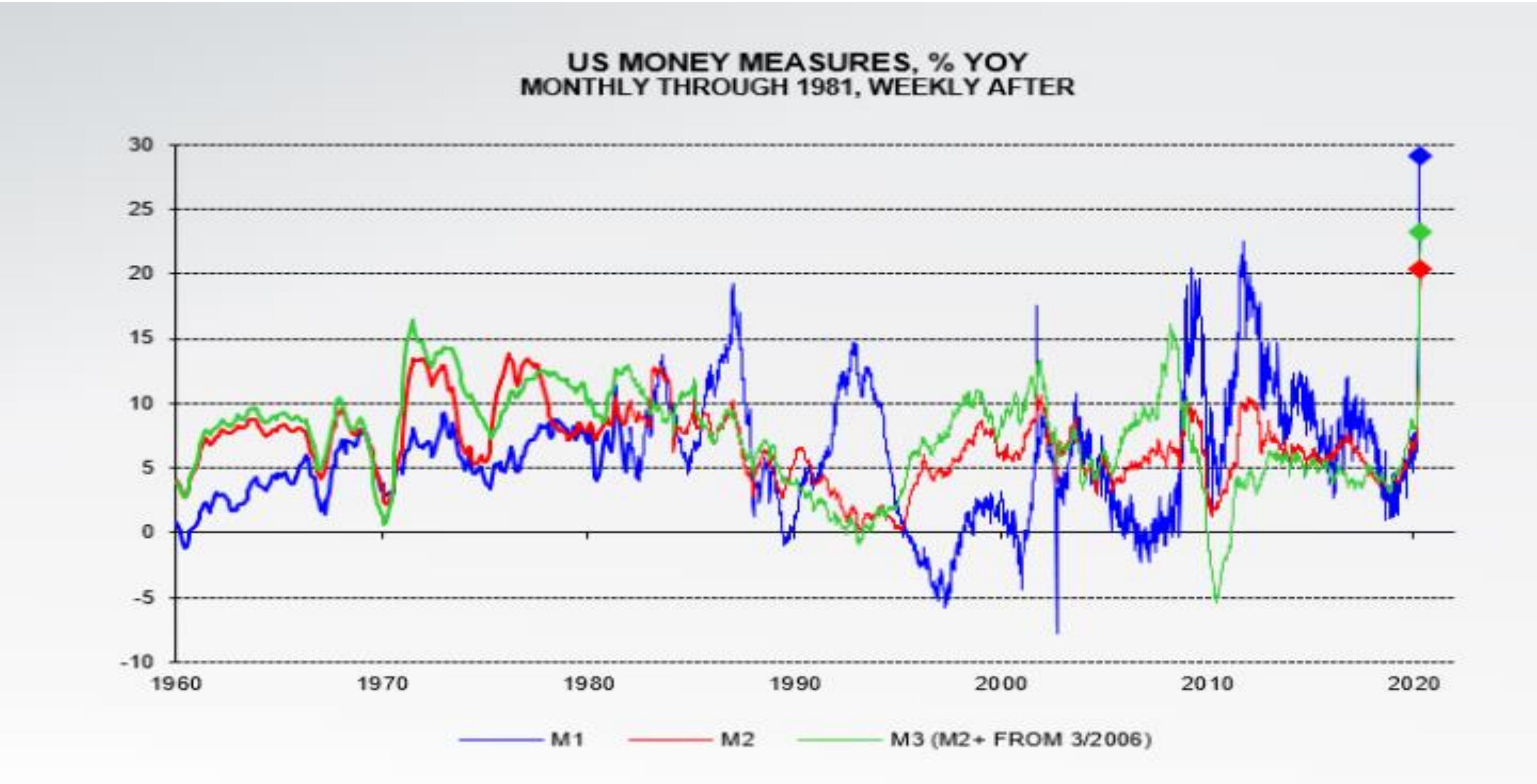
Global money trends & QE

Nominal money growth likely to rise strongly



Source: Aubrey Capital Management Ltd

US Data Shows the Same Picture



Source: Janus Henderson/Aubrey Capital Management Ltd

Inflation?

- UK inflation has fallen to 0.8%, it will likely turn negative in the later part of the year

- What drives inflation? Wages, Commodities, Capital Expenditure, Goods & Services

- Will higher money supply push inflation? Eventually but not in the near term

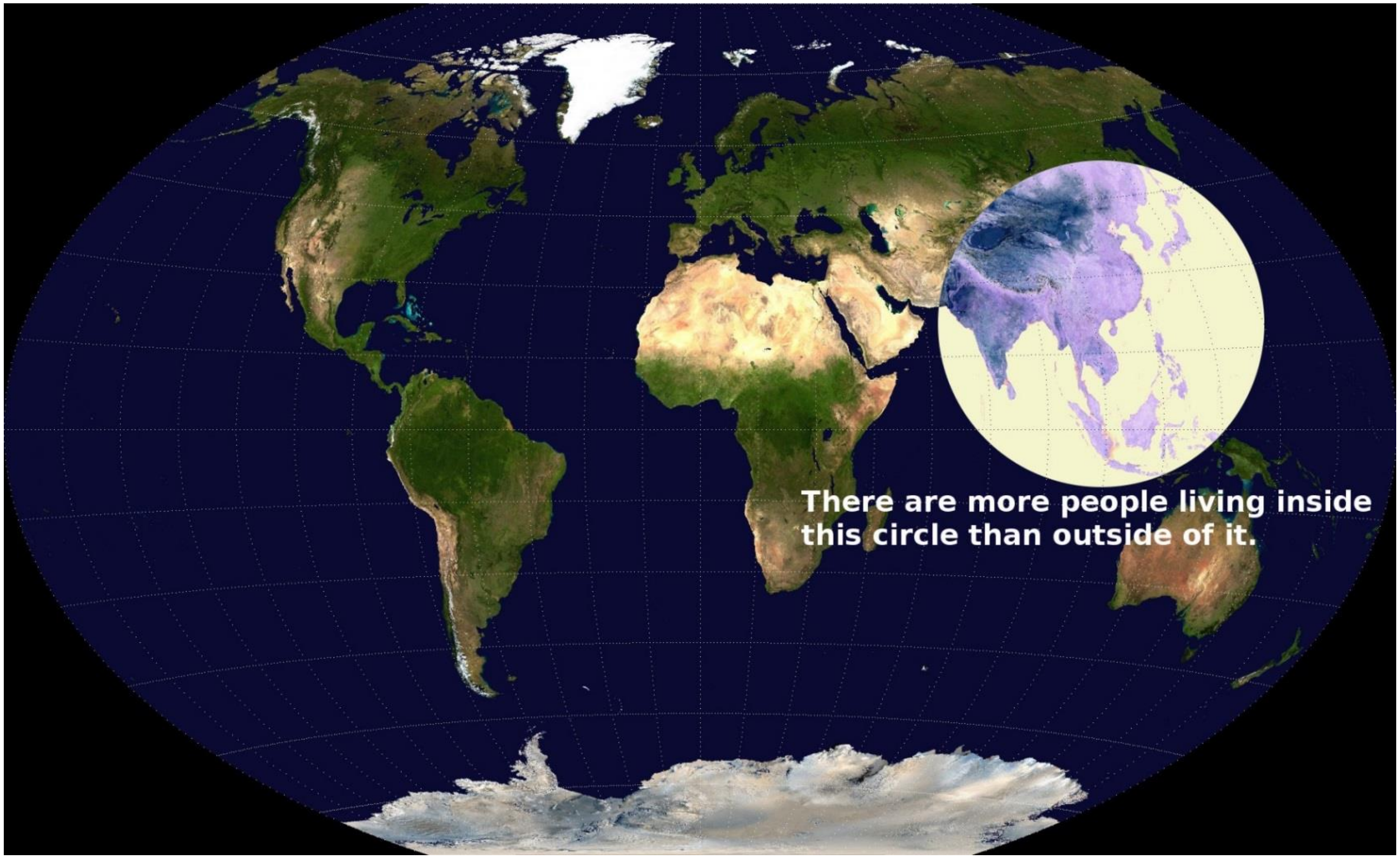
Source: ONS; Aubrey Capital Management Ltd

Post COVID – an Acceleration of Existing Trends

- Offline to Online
- Cash to Digital
- Cloud Computing & Processing and Digital Infrastructure
- Decarbonisation and the green agenda
- EM/Asia and the rise of the Asian middle class

Source: Aubrey Capital Management Ltd

A Changing World



- **Growth in personal consumption is the long term structural opportunity in GEM**
- **Asia is the most dynamic region in the world. 40% of Global GDP but 70% of growth.**

Source: valeriepieris- Reddit

Asian Growth Drivers

The global middle class market is growing: slowly in advanced countries and rapidly among emerging market economies

The middle class market in the US, the Eurozone, and Japan is projected to grow at 0.5% per year, compared with annual growth of 6% or more in China and India.

0.5%

6%

Asia is on track to represent **2/3 of the global middle class** population by 2030

350m in China

380m in India

210m in rest of Asia

130m in rest of the world

Source: "The Geography of the Global Middle Class. Where they Live, How they Spend" by Visa August 2019. The global middle class consumption study is a collaboration of Visa and Oxford Economics. Study based on Visa and Oxford Economics projections through 2030.

Source: Visa; Aubrey Capital Management Ltd

Have markets risen too far?

- Uncertainty remains, markets may struggle to move much higher in the short term
- Investment is not buying a slice of GDP but of a companies' earnings
- Year end target for S&P 500 is 3100 or +6%, assuming 10yr Treasury yield rises from 0.7% to 1.25% and profits fall 60%. The GFC saw US corporate profits fall c. 25%
- Indices contain winners and losers: Royal Dutch Shell B shares are still some 45% below January levels

As at 20-May-2020 13:15:05 - All data delayed by at least 15 minutes.

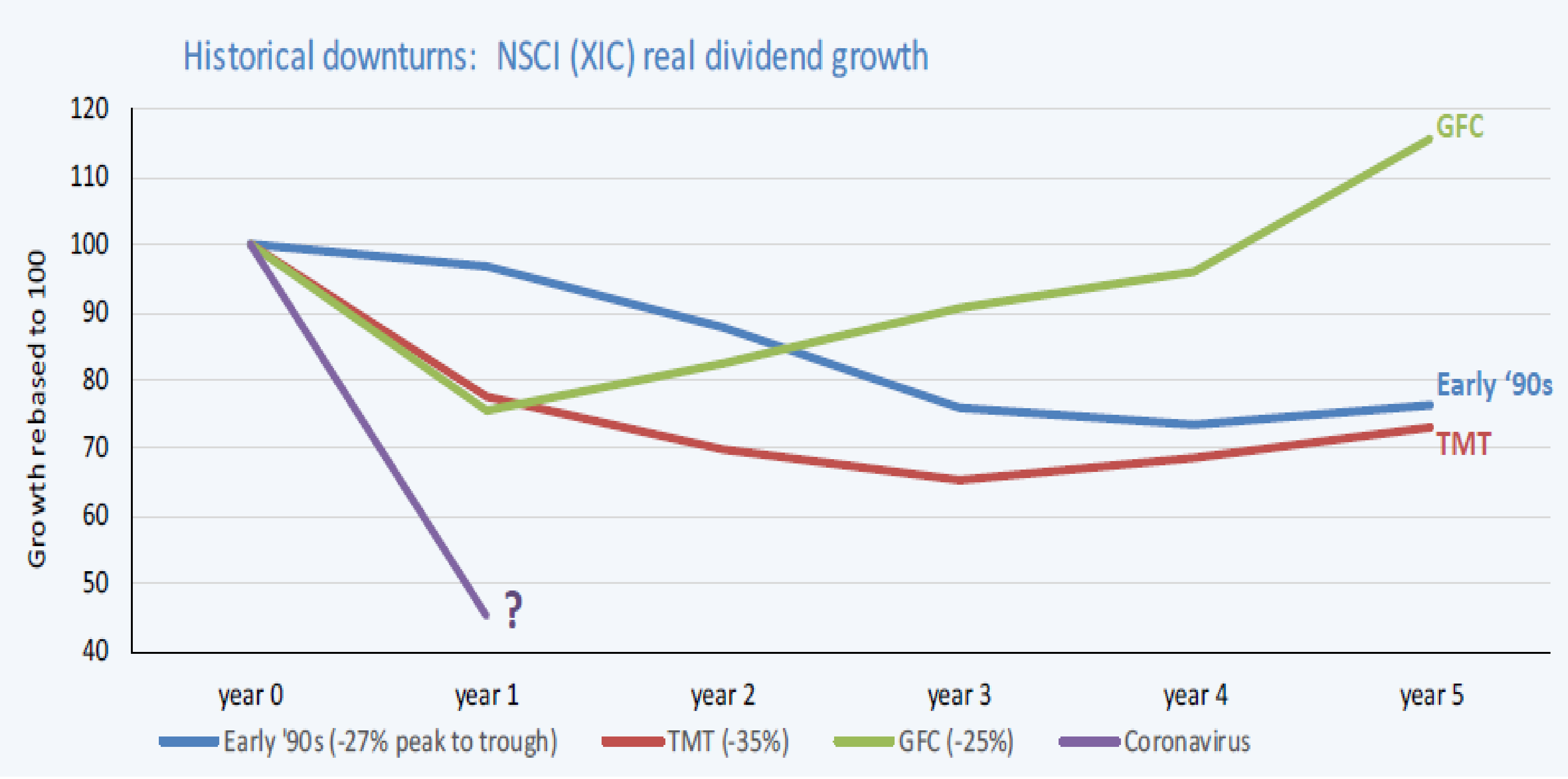
Source: Brian Wesbury, First Trust; www.londonstockexchnage.co.uk; Aubrey Capital Management Ltd

Equity Outlook

- The US and Asia remain the most innovative growth markets
- Europe has great companies but structural issues. It is a market for active investment
- UK large cap is dominated by value sectors, mid cap looks attractive on valuation but remaining uncertainty over UK/EU trade and the UK's shrinking part of global markets are headwinds
- Japan has suffered low infection numbers and not locked down but is still in recession due to the secondary effects of economic contraction elsewhere
- Growth/Quality vs Value/Dividends

Source: Aubrey Capital Management Ltd

But Dividends remain under significant Uncertainty e.g. Numis UK Small Cap Index



Source: Aberforth Partners LLP; London Business School. Data as at 30 April 2020.

Fixed Income Outlook

- Government bonds are expensive, yields have fallen to extreme levels despite a massive rise in government debt
- Expect more long term issuance as governments lock in current rates
- Investment grade corporate debt has gone from reassuringly expensive to very cheap, to reasonably priced
- The issuance market is buoyant
- Emerging markets offer many supports (but economic conditions in the developed world are not helping), lack of transparency and depth; prefer to play via equity
- High Yield - need to avoid energy otherwise spreads look reasonable.
- Not being paid for duration

Source: Aubrey Capital Management Ltd

Property Outlook

No

- Secondary or Tertiary (in any sub sector)
- High Street Retail, Hotels
- Generic Property Exposure
- Open Ended (liquidity, redemptions)

Yes

- Specialist sectors including datacentres, last mile distribution, social housing
- REITs (but these are listed equities)

Source: Aubrey Capital Management Ltd

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Source: Aubrey Capital Management Ltd

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