Currency: USD

2018/09/30

Newsletter

Global Indices Return (%)

As of Date: 2018/09/30   Data Point: Return

	1M	3M	YTD	1Y	3Y	5Y	10Y	15Y
USA Equities	0.4	7.4	10.2	17.2	16.4	13.1	11.3	9.1
Developed ex USA Equities	0.8	1.3	-1.5	2.7	9.3	4.2	5.2	6.9
Emerging Equities	-0.6	-0.8	-7.7	-1.2	11.4	3.7	5.4	9.8
Global Real Estate	-2.4	-0.2	-0.1	3.5	6.9	6.5	6.5	-
Global Bonds	-0.9	-0.9	-2.4	-1.3	2.0	0.8	2.9	3.5

Source: Morningstar, FTSE Indices, MSCI Indices, Barclays Global Aggregate Indices, Returns annualised for periods longer than a year

Equity Investors: expect volatility

At end September, the US remained an anomaly to the rest of the world. The US economy was strong with final GDP reading for Q2 reported at 4.2%; despite rising US interest rates. The rest of the world, in aggregate, is in a much weaker economic environment. This resulted in the US equity markets continuing their dominance over the rest of the world in Q3. This dominance has persisted over the last decade. But for long term investors, it is important to remember that in the previous decade, the US equity markets were broadly flat and the rest-of-the-world equity markets, in aggregate, comfortably outperformed the US.

With the fall in global equity markets month to date, we remind equity investors that they should expect this volatility, on average one in every three years will deliver a negative return.

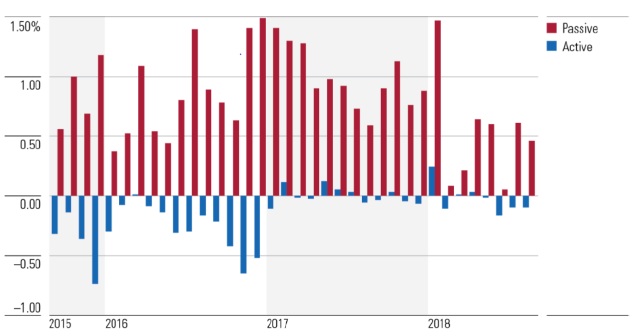
European Active Management Success Rate

This month, Morningstar released its European Active/Passive Barometer report where it compares the performance of active funds to comparable passive funds:

- **Equity Funds**: In the largest equity categories (by assets under management) active funds performed poorly; success rates between 11.5% and 23.7% in European sectors and 12.4% & 17.8% in the two largest single-country categories outside Europe, US and Japan respectively.
- **Bond Funds**: Active funds also had low success rate in this asset class; with success rates below 25% for 10 of the 12 bond categories.

US Fund Flows

Exhibit 4 Active/Passive Flows as a Percentage of Assets



Source: Morningstar Direct Asset Flows. Data as of 08-31-2018.

In the latest Morningstar US fund flow report, passive continues to grow market share at the expense of active. In the chart on the left, you can see the flows over the last three years for the total long-term funds (excluding money market), passive now has 38% market share of assets.

In the equity fund space, passive is even more dominant. In local (US) equity funds, passive funds are \$4trn and active funds are \$4.6trn. Passive has 47% market share and on track to reach 50% in 2019.

Currency: USD

ETF portfolios are attractive

We, at Stylo, are ETF (exchange traded funds) managers. We build global portfolios using ETFs as the investment building blocks. The ETFs we use are transparent, liquid and low-cost funds provided by some of the largest and most successful index-tracking managers in the world, like Vanguard and BlackRock (iShares).

We have four main risk-profiled model portfolios:

- Global Equity - targeting 100% equity exposure
- Global High Equity - targeting 75% equity exposure
- Global Balanced - targeting 50% equity exposure
- Global Low Equity - targeting 25% equity exposure

These model portfolios would have beaten more than 80% of their peer group, after accounting for costs, since inception (Jan 2015).

Source: Morningstar Inc, Stylo Investments; considering the returns of the top performing 1,000 funds with a comparable asset allocation to the Stylo model portfolio and domiciled in Europe.
Past investment returns are not necessarily indicative of future returns.
*Please read disclosure regarding investment returns **here***

We also have more specialised model portfolios (currency hedges, ESG/Shariah compliant, target duration etc.).

We believe we add significant value to you, the adviser.

- We evaluate the thousands of ETFs available and select ones we believe are most appropriate for each asset class or sub-asset class.
- We then package risk-profiled solutions using these ETFs.
- You can now rest assured that your clients are in portfolios that match their risk profile, are well diversified, have low-cost and typically beat the vast majority of comparable actively managed funds.
- We can co-brand client statements and the client portal with your brand.
- You can access our portfolios on tax-efficient platforms (Old Mutual International and Glacier International) using the custodian option. We are approved discretionary investment managers and use Saxo Bank as our custodian.

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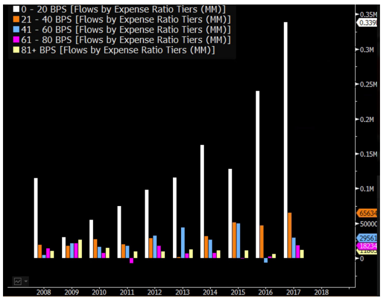
10 year US fund flows: low expense ratio funds attracting the flows



Source: Bloomberg Intelligence

This chart indicates how the net flow of funds in the US are spread across funds based on expense ratios.

Contact *us* about our global ETF-based portfolios