

AUGUST 2019

MARKET PERSPECTIVE

INSIGHTS & REVIEW FROM PERFORMA'S INVESTMENT TEAM

KEEPING PERSPECTIVE

It's mid-August, liquidity is thin and markets are volatile. Between the tariff war, flagging European growth, Brexit and Argentina's regular demise, investors are skittish and global yields are falling faster than Central Bankers can cut rates.

There are millions of pundits out there with myriad competing opinions on what is happening right now and why. Our role is to guide our clients' portfolios through volatile periods and come out the other side with capital intact as well as potentially taking advantage of opportunities that may arise from periods of extreme market weakness. In times like these, we are focused on having dry powder and keeping the riskier parts of the market (e.g. equities and high yield bonds) below their targets.

During periods of volatility, we will always err on the cautious side, and this time is no different.

Our current portfolio positioning reflects this side of caution. Here is where we stand with respect to the major asset classes in which we are currently invested:

High Yield: We are underweight target on an asset allocation basis. Within our High Yield strategy, we have ample cash as we feel it is important to have that cushion and will deploy it as spreads widen and yields increase. Our fund also has a higher credit quality than its benchmark as we remain underweight the riskiest CCC rated bonds. At a time where energy-related bonds are underperforming, our exposure has outperformed that part of the index.

Equities: Like High Yield, we are slightly underweight overall long equity exposure versus our asset allocation targets. Within our U.S. Equity strategy, large cap exposure is overweight relative to small cap, as small cap names overlap with the high yield market and tend to underperform when market sentiment declines rapidly.

Investment Grade Bonds: We remain short duration, having positioned portfolios over the previous 12 months with an index to index-plus portfolio yield with only ~70% of each index's interest rate risk. While yields briefly touched our 3% target at the longer end of the yield curve last year, our "across the curve" level was not hit. In hindsight, we missed an opportunity to gain some additional capital appreciation, however with absolute returns above 5% for the year, we now shift towards how to protect from giving that back.

Cash: Outside of the individual strategies, the asset allocation underweights have provided some additional cash to use as dry powder when market conditions become more attractive.

We are watching markets closely and will look to deploy cash at more attractive levels. The next step will be to move riskier sectors from underweight back to neutral. Should the markets overreact at any point and move to extremes, we would then move some sectors to overweight. We do not know if that scenario is in the cards, but we will be ready should it arise.

ABOUT PERFORMA

Combining our extensive knowledge of the insurance industry with the institutional expertise of our investment team, Performa has been managing assets on behalf of captive and other insurance clients for more than 25 years. Our capabilities include asset allocation, active fixed income and equity management through diversified mutual funds and separate account portfolios. With offices in the world's largest captive domiciles, including Bermuda, Vermont and South Carolina, we are focused on delivering customized solutions to meet the unique investment objectives and liquidity requirements of our clients. We are 100% employee-owned and have \$4.52 billion in captive assets under management and advisement as of June 30, 2019. Our investment philosophy is value driven and long-term in nature. Whether approaching asset allocation, fixed income or equities, our ability to be nimble, contrarian and decisive sets us apart from our peers and promotes capital preservation.

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