MONEY MANAGEMENT FUND MANAGER OF THE YEAR 2020
AUSTRALIA'S FIRST INDEPENDENT AND WHOLE OF MARKET AWARDS
WINNER
Emerging Manager

insync fund managers

# January 2021 Monthly Update

The euphoria of investors continued this month, similar to when Trump was elected but this time ousted. As in late 2016 and similar times before this, the 'promise' that all will be *immediately better*, took hold. This had investors hunting for stocks long neglected with the belief that these companies' numbers, fortunes and prospects must surely instantaneously rise to the highest of levels. Covid vaccine announcements have undoubtedly provided additional optimism. The resultant share prices surge in cyclical stocks continues in the near-term.

The fact that most of these companies' financials and prospects will not rise as high or anywhere near as fast to support the current price surge, is yet to be reconciled. That day will come and with it, more realistic prices. A relative reappreciation of companies supported by superior financials and situations will ensue. We have witnessed this phenomenon before with over-hyped tech stocks rising too far beyond what the financial position justifies.

| | Since Incep# | 10 Years | 5 Years | 3 Years | 2 Years | 1 Year | 6 Months | 3 Months | 1 Month |
|---|---|---|---|---|---|---|---|---|---|
| **Insync Global Capital Aware Fund*** | 11.50% | 13.37% | 12.72% | 15.70% | 21.73% | 9.48% | 2.31% | -1.24% | -3.70% |
| **Insync Global Quality Equity Portfolio ^** | 13.71% | 15.82% | 14.25% | 15.59% | 20.78% | 5.71% | 3.73% | 0.02% | -3.63% |
| MSCI ACWI (ex AUS) NTR (AUD)~ | 11.11% | 11.91% | 11.77% | 9.93% | 13.69% | 2.25% | 9.52% | 7.00% | 0.11% |
| | | | | | | | | | |
| **Global Capital Aware Active Out-Performance** | **0.39%** | **1.46%** | **0.95%** | **5.78%** | **8.04%** | **7.23%** | **-7.21%** | **-8.24%** | **-3.80%** |
| **Global Quality Active Out-Performance** | **2.60%** | **3.91%** | **2.48%** | **5.67%** | **7.10%** | **3.46%** | **-5.79%** | **-6.98%** | **-3.74%** |

Source: Insync Funds Management - Past Performance is not a reliable indicator of future performance. *Represents net of fees and costs performance, assumes all distributions reinvested. ^Returns prior to July 2018 represent the underlying Insync Global portfolio (including cash) inclusive of a 0.98% p.a. MER. ~ MSCI All Country World ex-Australia Net Total Return Index in Australian Dollars. # Inception date 9/10/2009

## Monthly Round Up

Given the above, investors and some fund managers are tempted to chase the return, doubting their original decisions and to swap investments. This is human nature. When markets reconcile these events into their proper standing however, it does so without notice. The current situation may last 3, 4 or 7 months; perhaps longer, or shorter. In early 2017 it reconciled. After 4 months Insync's fund went on to rise significantly, outrunning the previous cyclical surge and without the timing risk.

In January 2021, the year-long plus roll out of vaccines commenced, as surging hospitalisation and death rates for 95% of the globe intensified. A disruptive presidential exit led many to question the sanctity of democracy. China continued its march to authoritarianism without suffering economic consequences from a weakened West. The USA posted a mix of both good and poor economic results. China and a few small countries aside, most nations economic progress was thwarted again.

**It is however a folly to take too much notice** of markets as a whole. Within 'markets' there are sectors thriving, those in structural decline and those yet to be determined in between. Markets also contain the full spectrum of quality companies too; from the very poorest in ability and results, to those displaying the very best outcomes.

**Insync experienced a dream run** of high monthly returns for almost a year, then a few months of flat returns, and posting a small negative result this month.

Insync's *Defensive Growth* process of investing means we are selecting companies that we believe will produce outsized gains over time, for those investors with at least a 5-year time frame (not 5 months). To achieve this without increasing risk means, at times, experiencing short-lived lows.

**The dramatic rise and falls of 2020 are fine examples.** Insync did not sell out, move to cash or deviate off our path when markets swung wildly. The path of quality companies with high ROIC positioned in one or more Megatrends that deliver great returns over long runs, remained. That resulted in almost +20% for the calendar year, almost 3x the 'market' and over 14% and 15% over 5 and 10 years respectively after fees. We retained our discipline and our focus.

**Two overall drivers produced the net negative January result.** Investors were jittery over the upcoming earnings results to the end of December because of Covid; and the switch by many institutional investors from growth stocks to cyclicals (the leveraged trade play). This selling down of previous holdings in bulk depresses prices for a short while, whilst boosting the latter's prices.

**Several holdings declined** as a result. Visa, Nintendo, Disney, Estee Lauder, Facebook, Adobe, and Dollar General, whilst the index remained flat.

**Most holdings remained about flat**. This does not correlate to the current and prospective financial and sales situation that these companies are producing.

**Three stocks rose**: Microsoft, Home Depot and Qualcomm. The net month's fund result was circa -3%.

**Structural headwinds** preventing a continued cyclical upsurge, outpacing a quality defensive growth approach, have not magically disappeared simply because investors are throwing money into the cyclical play.

**Reinflation prospects remain dim** (despite latest US Bond rate moves) as the low *Velocity of Money* remains a serious blocker. Factors causing this include negative industry lending flows and investment. Importantly, conditions supporting defensive growth beyond the near-term remain strong.

## Megatrends. Harnessing Disruption.

They are not mutually exclusive but are inexorably entwined. Disruption plays a 'stimulant' role to what has been going on for many years in global Megatrends. Disruption accelerates change especially where it supplants human intervention or makes redundant far-reaching processes.

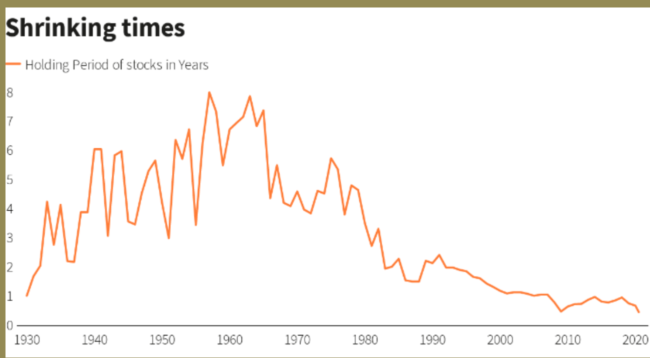
By example, the most successful retailers have moved their distribution channels significantly to online. This reduces costs and increases access, all from the comfort of one's home. The stocks involved with online distribution such as PayPal, Amazon, Apple and Walmart have ballooned. Importantly this is supported by ballooning profits and revenues.

**The magnitude of change** (disruption) we are undergoing is both rising and accelerating. Investors must therefore understand both; identify the role of disruption and where it will move the needle, and the impact on global Megatrends.

**Disruption is not enough on its own.** To what extent does it subvert or support other factors in identifying winners and losers? By example, companies in advanced industries studied by McKinsey & Co showed that firms embedding digital sales into their GTM (go-to-market) model see five-times-faster revenue growth, compared with previous levels, 30% higher acquisition efficiency and sales cost reductions of 40%-60%.

We are at a unique point in history, the digital revolution (The Fourth Industrial Revolution) is well underway; and in ways never imagined even 10 years ago.

**Increasing investor short-termism.** Fund managers are increasingly trying to position for the best short-term result as a means of differentiating their offering and to secure the investors dollar. Technology is enabling faster execution of investment decisions and also driving more regular decisions. This is compressing the time horizon of investing as the graph shows.




Source: NYSE, Refinitiv

The outcome is dangerous however for investors. It has been proven many times over that it is impossible to deliver regular positive short-term results AND a long-term positive result *as well*. And so, the temptation for investors and their advisers to switch or 'time' matters prevails. It plays to the human condition of the 'here and now'. That rare commodity of patience is needed.

### Matching investor's long-term needs.

Megatrend, (Duration) investing, is the opposite of near-term investing of many growth and momentum managers. They seek to generate upside from timing markets and stock price movements, whereas duration investing looks to longer term trends and reasons why a stock will be a *sustainable* performer beating the sprinters over time. Timing and stock selection risks are reduced. Duration investors enjoy lower turnover and lower volatility in their returns. Stock turnover statistics of managers reveals the truth.

### Lowering Disruption's tendency to concentration.

One of the most successful traits of a long-run winning company is that they generally heavily invest into innovation (R&D); to ensure they are on the right side of disruption and benefit from the tailwinds of Megatrends.

Megatrends, whilst using disruption, are not concentrated on where disruption is occurring – i.e., mostly technology. Megatrends leverage disruption instead.

With Insync this is how **Domino's** grows market share in the Food Away from Home Sector, **Estee Lauder** on well-being products, **Nintendo** dominating Video & Gaming, and **PayPal**'s dominance in the Cashless Society as examples. A drawback of a focus primarily upon *disruption* is that without the context of global Megatrends, investors end up with overly concentrated sector holdings and higher risk.

### Improve portfolio blending, negative correlation and stock diversification.

Megatrends often defy and transcend typical market boundaries, research labels and categorizations. Their multiyear return profiles usurp traditional country, industry and style factors and old financial measures such as PE ratios.

One outcome is that it complements traditional *Value versus Growth* fund manager portfolio mixes. This does not exclude the benefits of disruption, rather it cleverly incorporates it.

### Harness Disruption's qualities and better align investor time frames.

Megatrends help make sense of disruption, harnessing its better impacts and reducing its risks. Disruption led investing requires additional and more frequent timing risk. When to get out is key but is often not apparent when riding a disruption story, often appearing and ending quickly and without notice. Megatrends ensure investors are taking a longer-term approach, controlling the risks, matching the timeframe and liabilities of most investors and without blocking the upside of disruption.

### Provide greater resilience to sporadic shocks.

Megatrends over the last decade have proved very resilient to the Covid-19 type events. In these situations, it is about how low and for how long the stocks held respond. Insync's Megatrend approach has a strong record on both counts. This has driven superb upside and downside capture results for the fund, participating in most of the ups and avoiding many of the downs.


### Sort the hype of disruption from the reality.

Take for instance Tesla and benchmarked to GM and real numbers. Tesla gobbles up $1,500,000 of shareholder capital per unit produced, with GM just $9,000. Tesla is yet to make the leap to volume production from its tiny production rate. Its profits are not what they seem. They exist only due to the bringing forward of environmental credits of 5 years into the present.

Tesla's massive price run up of +400% in little over a year means even if all its stated plans and numbers come to fruition (and on the high side) by 2030, shareholder returns between then and now will only be in the single digits. Megatrends sort hype from the real.

### Future proof investor portfolios with both.

The pace of disruption is accelerating across all industries amplifying the importance of identifying Megatrends as a beacon to the future. In other words, investing in Megatrends provide a greater degree of certainty in an increasingly uncertain world without blocking the benefits that disruption triggers. Have both with Insync.

## Conclusion

Preparing investors for the future means avoiding tactically responding to short term market developments and hoping one's timing is right (whether it will be a V or K-shaped recovery, or event hype such as a vaccine).

It requires:
1. being attuned to disruptive forces.
2. possessing a cogent vision of how the longer-term future is likely to unfold.

Naturally, we side with quality businesses, with a clear future-focused vision, leveraged from but not led by disruption. These companies must also exhibit a high ROIC and participating in one or more Megatrends.

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## Risk Measures – Global Quality Portfolio^

| | 1 Year | 3 Years | 5 Years |
|---|---|---|---|
| Standard Deviation | 16.50% | 13.76% | 12.29% |
| Tracking Error | 9.25% | 7.18% | 6.43% |
| Information Ratio | 0.37 | 0.81 | 0.41 |
| Sharpe Ratio | 0.32 | 1.07 | 1.06 |
| **Batting Average** | 66.67% | 66.67% | 56.67% |

## Risk Measures – Global Capital Aware Fund*

| | 1 Year | 3 Years | 5 Years |
|---|---|---|---|
| Standard Deviation | 14.17% | 12.42% | 11.35% |
| Tracking Error | 11.05% | 8.28% | 7.39% |
| Information Ratio | 0.65 | 0.70 | 0.13 |
| Sharpe Ratio | 0.64 | 1.19 | 1.01 |
| **Batting Average** | 66.67% | 61.11% | 51.67% |

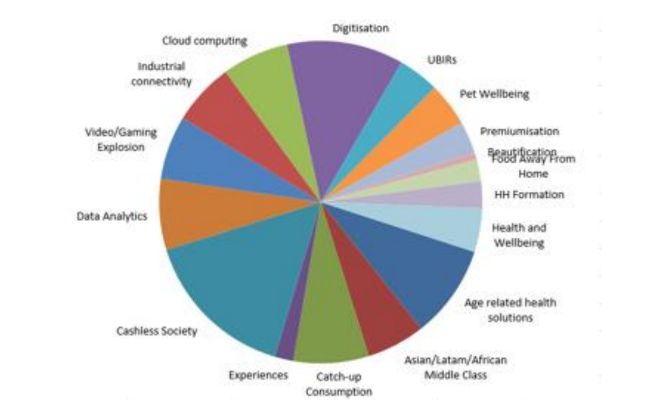
## Capture Ratios – Global Quality Portfolio^

| | 3 Years | Since Incep# |
|---|---|---|
| # Index Positive Months | 21 | 85 |
| # Index Negative Months | 15 | 51 |
| **Up Market Capture** | 1.15 | 0.95 |
| **Down Market Capture** | 0.80 | 0.64 |
| Capture Ratio | 1.44 | 1.48 |

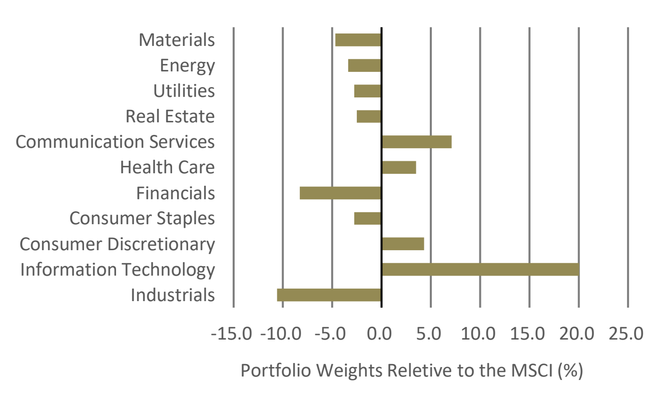
## Capture Ratios– Global Capital Aware Fund*

| | 3 Years | Since Incep# |
|---|---|---|
| # Index Positive Months | 21 | 85 |
| # Index Negative Months | 15 | 51 |
| **Up Market Capture** | 1.03 | 0.81 |
| **Down Market Capture** | 0.58 | 0.56 |
| Capture Ratio | 1.77 | 1.45 |

## Megatrend Exposures




## Portfolio Sector Weights vs MSCI




## Top 10 Active Holdings

| Stock | % |
|---|---|
| Nintendo | 4.6% |
| Qualcomm | 4.5% |
| PayPal | 4.5% |
| Walt Disney | 4.4% |
| Domino's Pizza | 4.2% |
| S&P Global | 4.0% |
| Dollar General | 3.9% |
| Visa | 3.8% |
| Microsoft | 3.6% |
| Facebook | 3.5% |

## Key Portfolio Analytics

| | Portfolio | Index |
|---|---|---|
| Forward PE | 31.46 | 27.24 |
| ROIC | 59.19 | 10.88 |
| Market Cap (USD avg) | 438.70 | 39.27 |
| Market Cap (USD median) | 180.93 | 13.93 |
| Std deviation (ex ante) | 15.64 | 14.89 |
| Net Debt to Equity | 73.48 | 66.74 |
| Total Debt to Ebitda | 2.09 | 4.46 |

## Key Fund Information

| | Insync Global Quality Fund^ | Insync Global Capital Aware Fund* |
|---|---|---|
| Portfolio Managers | Monik Kotecha and John Lobb | |
| Inception Date | 1 July 2018 | 7 October 2009 |
| Management Fee | 0.98%p.a. of the NAV | 1.3%p.a. of the NAV |
| Performance Fee | Nil | Nil |
| Buy/Sell Spread | 0.20% / 0.20% | 0.20% / 0.20% |
| Distribution Frequency | Annually | Annually |
| APIR Code | ETL5510AU | SLT0041AU |
| Trustee | Equity Trustees Limited | Equity Trustees Limited |