INFINITY ASSET MANAGEMENT

Quarterly Update

August 2022

Andrew Miles, Senior Investment Analyst – Update on the performance of the diversified and sector portfolios over the last financial year.

Market Performance and Bond Yields

The performance of the ASX 200 and NASDAQ over the financial year has been a tale of two halves. The first half going okay and the second half being quite brutal for markets. The key driver is the rise in bond yields. On the chart is the US 10-year yield, and you can just see the pace and the magnitude with which this has changed. This has sent shockwaves through the market. So, equity markets and fixed income markets have suffered considerably, and there's really been very few places to hide. Our portfolios have not been immune to these challenges.

Underlying Manager Performance

Some of the managers that have felt the underperformance more acutely fall into the global equity growth part of the market. Managers like T Rowe Price Global Equity have a growth bias and so have experienced some weaker performance. Barwon Global Listed Private Equity owns many stocks that are considered growth stocks. So, the higher interest rates have hit those companies more heavily and Barwon has experienced weaker performance.

OC Premium Small Caps has also been affected, as small caps have underperformed large caps over the period. The OC team also don't invest in the commodity part of the small cap market, which has been quite robust. It should be noted, these are equity managers, they tend to be more volatile, and that growth style has led to some slightly weaker performance. That said, we still invest with these managers. They have experienced investment teams, disciplined processes, and they've managed several cycles. So, we're backing them to right this performance, but we're also keeping a very close eye on them.

Some of the things that we we've been quite pleased with in portfolios has been a little bit more miscellaneous. It's been those managers that have a bit of flexibility to go long and short. Fulcrum, which is in our alternative's portfolio, have benefited because they went long commodities and short fixed income. That is the advantage of having a manager that has some flexibility. They're a global macro-style manager and provided some useful diversification, managing to eke out a reasonable return over the financial year in what has been a really challenging time.

Another manager that has performed well is UBS CBRE Global Real Assets. This is a manager that has a process where they can invest in listed and unlisted assets. Pleasingly, the unlisted infrastructure part of their portfolio has been very successful. Real assets are one of the places where investors can seek refuge. Infrastructure assets often have inflation protections with regulated cash flows. So, this has been a part of the market that investors have flocked to as inflation has taken many market participants by surprise.

Lastly, Metrics Direct Income Fund is doing a very good job. The key thing that we liked about Metrics when we invested with them was that their loans to Australian corporates are floating rate. In an inflationary environment, as the inflation rate goes up, the interest on these loans typically does the same. They have been very resilient because there's no duration in their portfolios, so there is negligible interest rate risk. Metrics have managed to issue new loans and they haven't had any loan impairments. We are watching this very closely as economic growth appears to slow in Australia, but so far so good from Metrics.

There are always going to be parts of your portfolio that are slightly weaker. But having a diversified portfolio with different managers that have different performance drivers is important through the cycle.

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