<u>FEIFA Article – AI World Equity Fund</u>

August 2021

In this article, the sub-investment managers break down how their global AI Equity strategy has been able to generate outperformance over its benchmark in the last 18 months

July and August, typically a quieter period for equity markets, has so far been generous to those who have remained invested and focused on data over headlines. Investors now turn their attention to the Federal Reserve's annual Jackson Hole symposium, which falls next week.

The Federal Reserve is currently purchasing $80 billion of Treasury securities and $40 billion of mortgage-backed securities every month. We expect a clear indication next week that tapering will be discussed at the Fed`s September meeting and expect a grind higher in treasury yields as we approach the end of the year.

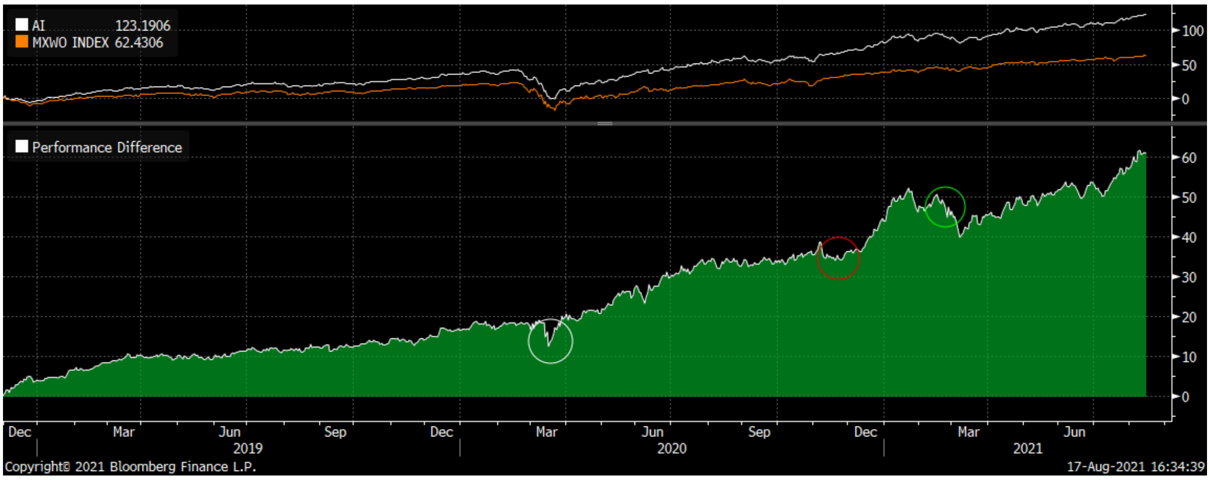
We believe that it is important to highlight that tapering doesn't actually reduce the size of the Fed's balance sheet, it simply reduces the amount of additional bonds purchased. The Feds balance sheet will continue to grow, but by a slower amount.

We believe the timeline will unfold as follows:

1. Announcement Fed will formally discuss tapering: Next week at Jackson Hole
2. Tapering begins: Q4 2021
3. Bond purchases end: Q4 2022
4. Interest hikes begin: Q1 2023

We continue to expect strong economic growth which will come from increased government infrastructure spending, personal consumption and reduction in savings, and the general vaccine led reopening of economies. As long as economic growth continues, treasury yields stay below expected inflation, and liquidity remains abundant, we believe equities are well placed to continue to grind higher.

The below shows how consistent the alpha generation of our Global Equity strategy has been over time. **The green area is the outperformance of our Global Strategy vs. the MSCI World**.



Since inception in November 2019, there have been three short periods of underperformance, circled on the chart. In all three cases, the AI driven software adapted shortly afterwards, triggering a larger than normal number of exits/sell recommendations. The software directed us to reposition the portfolio and we quickly recovered lost relative ground and got back on the path to outperformance.

Details on the 3 “repositionings” following underperformance are given below.

1. **February & March 2000 – Covid Collapse**

   The strategy underperformed in early days of the Covid Collapse. Then from early February to the 17th of March, the system said sell Airline Manufacturers, Industrial Materials, Airlines, Autos, Banks.

   These are the ‘old economy’ stocks that were about to get further pummelled in the economic collapse. We added buy rated video game makers, cybersecurity companies, healthcare, gold miners and property companies as better positioned candidates.

2. **November & December 2020 - Pfizer vaccine efficacy cyclical rally**

   The system started recommending more cyclical companies in October. It made shipping company Moller Maersk the highest ranked company in the universe as freight rates were allowing the company to produce massive cash flow. Healthcare facilities provider McKesson was added as a vaccine distributor in November, and Auto companies, and consumer companies became favoured as the machines detected a pick-up in risk sentiment.

   On the other side of this trade, it recommended we take profits on some of the ‘stay at home’ trades we invested in throughout the lockdowns. We took profits on video gaming companies and cyber security stocks that had seen huge increases in demand for their products during this period.

   The system also recommended switching exposure from precious metals to industrial metals with the strong and rapidly improving economic backdrop.

3. **February & March 2021 – China market underperformance**

   In February this year, the system signalled to sell most of our Chinese holdings, not before the beginning of the sell-off in local stocks, but early enough that the massive underperformance from the region did not impact the strategy for long.

   It also reminded us every day that Moderna was the best company available in our universe, despite being hated by sell-side brokers. We realised that the market was essentially pricing in revenues falling off a cliff after second vaccines had been delivered, which neither us or our AI software thought would be the case. We eventually understood why it was so attractive, even though it had no historic revenues or earnings. We added Moderna to the portfolio in February and have so far realised a 130% gain so far on the position.

We hope this article has provided some useful examples of how the software helps us generate this alpha. For further information, contact hugh.beaumont@jordanbuchanan.com 00447815948353