

## Overview

The Balanced ESG iBasket seeks to invest in ETFs that track companies with the strongest environmental, social and governance (ESG) factors. It provides a convenient and flexible access to investments that comply with sustainability criteria overseen by established index providers. Most of the funds employ a best-in-class approach for selecting the top companies in each sector with exclusions of companies involved in controversial activities like alcohol, tobacco, nuclear weapons and firearms.

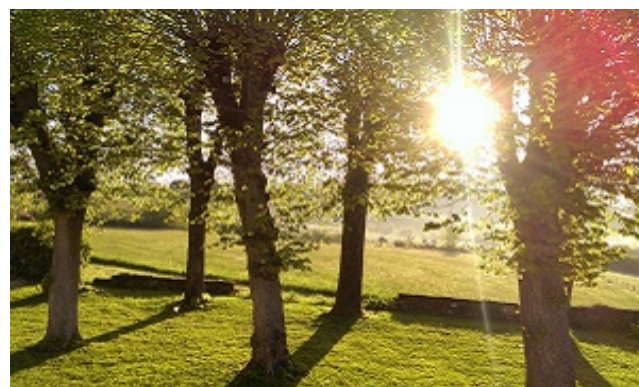
We may also invest in ETFs for 'Impact Investing' and ESG Themed ETFs. Impact Investing seeks to provide capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, and microfinance. To be able to control the risk of the portfolio we may also invest in G7 government bonds.

## Investment Philosophy

- Twenty20 Investments will partner with the Investment Manager to provide advice as to the construction of diversified portfolios built entirely from ETFs, aiming to achieve outperformance by optimising and adjusting the weights using various macro-economic forecasting models and market indicators.
- The portfolio will be reviewed on a monthly basis, with the aim of restricting the total equity exposure to 90% of the notional at the start of each re-balancing period. During periods of extreme risk, when protecting your capital is critical, we may move part or all of the allocations away from falling markets to lower risk government bond ETFs or cash.

## Investment Strategy

- We use the versatility of ETFs to gain exposure to a wide range of asset and sub-asset classes which makes the portfolio liquid, well diversified and economically priced.
- Our risk budgeting process delivers diversified holdings across multiple asset classes aiming to provide more stable returns, reduced volatility and seeks to ensure profits are taken as and when appropriate.
- We use state of the art technology to screen extensive market, macro-economic and ETF data sets from around the world. This enables us, along with human overlay, to determine economic cycles and risk appetite in the markets and to capture the risk premia across various asset classes.
- The ETFs are selected by our Fund Research Department. This rigorous and systematic research process carefully analyses a wide universe of ETFs, identifying the best investment opportunities as and when they occur.



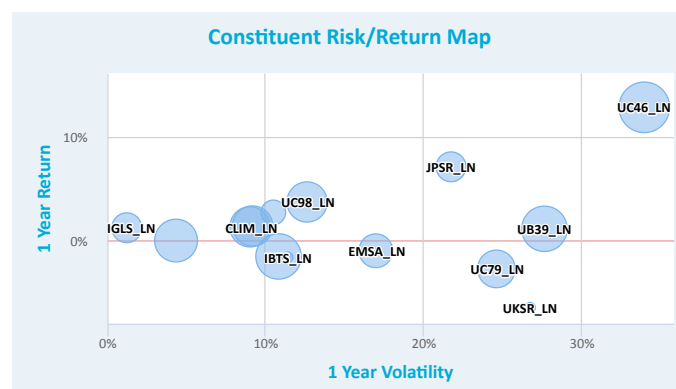
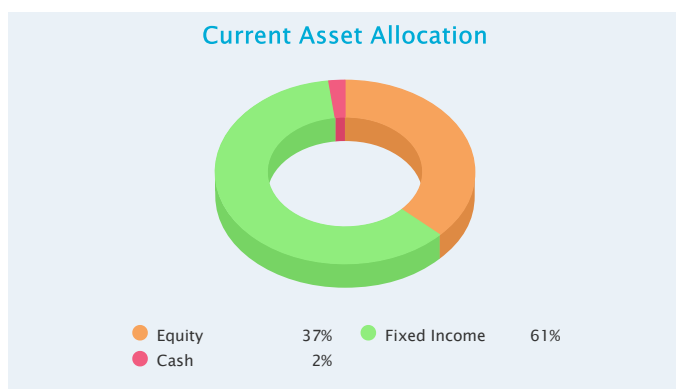
Investment Advisor	Twenty20 Investments
Investment Manager	Linear Investments Limited
Legal Form	Model Portfolio
Target Investments	Multi-asset portfolio investing 100% in Exchange Traded Funds comprising assets in equities and fixed income
Investment Objective	Our models encode macro-economic and fundamental indicators as market timing signals to tactically allocate between different asset classes
Target Return	UK RPI + 2%
Target Risk	Medium risk level between 5% and 10% annualised volatility of the portfolio over a 5-year period
Minimum Subscription	£15,000
Redemption Period	Daily
Inception Date	4 May 2016
Management Fee	0.15% + VAT
Investment Wrapper	SIPP, ISA, General Investment
Platform Availability	Ascentric, Transact

# Balanced ESG iBasket GBP

2 Sep, 2020

## Portfolio Construction

### Asset Allocation - 2 Sep, 2020



A portfolio allocation diversified across asset and sub-asset classes and across regions.

On an asset-by-asset basis, the one year risk and return characteristics of the constituent ETFs are shown in the chart above.

### iBasket Top Holdings - 2 Sep, 2020

Balanced ESG iBasket GBP	Ticker	Asset Class	Theme	Region	Weight
UBS ETF MSCI USA SRI USD A dis	UC46_LN	Equity	Thematic	North America	12.0%
iShares \$ CORP BOND SRI 0-3YR UCITS ETF USD (DIST)	SUSU_LN	Fixed Income	Investment Grade	United States	10.0%
UBS ETF MSCI EMU SRI EUR A dis	UB39_LN	Equity	Thematic	Eurozone	10.0%
iShares € Corp Bond ESG UCITS ETF GBP Hedged Dist	SUOG_LN	Fixed Income	Thematic	Europe	9.0%
iShares € Corp Bond SRI 0-3yr UCITS ETF	SUSS_LN	Fixed Income	Thematic	Europe	8.0%
Lyxor Green Bond (DR) UCITS ETF	CLIM_LN	Fixed Income	Thematic	Global	8.0%
UBS ETF Bloomberg Barclays MSCI US Liquid Corporates Sustainable UCITS ETF	UC98_LN	Fixed Income	Thematic	United States	8.0%
UBS ETF MSCI Emerging Mkts SRI USD A dis	UC79_LN	Equity	Thematic	Emerging Markets	7.0%
iShares J.P. Morgan ESG \$ EM Bond UCITS ETF	EMSA_LN	Fixed Income	Thematic	Emerging Markets	6.0%
iShares UK Gilts 0-5yr UCITS ETF GBP (Dist)	IGLS_LN	Fixed Income	Government	United Kingdom	5.0%

## Performance

Calendar-Year Performance	2016*	2017	2018	2019	2020 Ytd
iBasket Return	6.46%	8.75%	-1.52%	8.34%	2.60%
RPI + 2%**	2.44%	5.42%	5.68%	4.79%	2.68%

\* Since inception date of 4 May 2016.

	iBasket Return	RPI + 2%**
<a href="#">1 Year Performance</a>	0.56%	4.24%
<a href="#">3m Performance</a>	0.61%	0.80%
<a href="#">6m Performance</a>	2.99%	1.95%
<a href="#">Performance Since Inception</a>	26.73%	22.79%
<a href="#">Ytd Performance</a>	2.60%	2.68%

OCF: The ongoing charges figure of the underlying ETFs is 23.9bps.

Source: Twenty20 Investments, Markit. All returns in GBP, including the underlying ETF charges but excluding the model portfolio management fee. Any fees or charges payable to your Financial Adviser are in addition to the above.

## Environmental, Social & Governance ETF Classification

As the number of funds within the ESG category rapidly increases, the challenge of keeping on top of the various classification schemes cannot be underestimated and none more so than in the world of passive investing. Fortunately, most ETFs are constructed in a transparent way and are benchmarked against well documented index methodologies.

In this brief section we outline our in-house ETF classification scheme that allows a Financial Advisor or Wealth Manager to quickly gain a high level understanding of which ESG-centric investment themes & methodologies have been selected within the model portfolio.

### ESG Investing

Environmental, social, and governance (ESG) criteria are proving to be an increasingly popular way for investors to evaluate companies in which they might want to invest. ESG criteria can also help investors avoid companies that might pose a greater financial risk due to their environmental or other practices. An ESG fund's target is to generate long-term competitive financial returns and positive societal impact.

ESG investing is sometimes also known as Sustainable Investing or Socially Responsible Investing (SRI).

### The ESG of Investing

ESG funds select companies that score high on all three factors, Environmental, Social and Governance, relative to their industry peers. These factors usually look at a broad range of behaviours.



**Environmental** criteria consider how a company performs as a steward of nature. Factors can include a company's energy use, managing resources and preventing pollution, and a good treatment of animals. It may also include any environmental risks a company might face, for example issues related to the disposal of hazardous materials or emissions.



**Social** criteria examine how a company manages its relationships with employees, suppliers, customers, and the communities it operates in. Examples include, does the company donate a percentage of its profits, do working conditions show high regard in its employees?




**Governance** deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights. Does the company avoid conflicts of interest among their board members, does it use political contributions to obtain favourable treatment, or what is the gender balance across their leadership?


### Positive Versus Negative Screening


Many ESG funds apply both positive and negative screening methods. The first step is often to screen companies based on their environmental, social and governance factors based on a range of sub-factors. For example, the top 25% or top 50% of all companies in any one sector might be eligible for the fund. Negative screening filters out companies involved in controversial activities like alcohol, tobacco, nuclear weapons and firearms.


### ETF Classifications


There are several providers that provide the ESG ratings for companies, for example Sustainalytics, MSCI, and SAM. While they do not provide exactly the same scoring for each company, the type of methodologies can be seen as five different classifications.

 **Classic ESG:** Invests in the top percentile of ESG scored companies, i.e. the top 25% or top 50%. These often come with exclusions to companies with controversial activities.

 **ESG Light:** Seeks a balance between investing in companies that score the highest on ESG and maintaining a similar sector exposure as the original index. Often comes with additional exclusions and popular with Institutional Investors.

 **Exclusions:** Negative screening filters out companies involved in controversial activities like alcohol, tobacco, nuclear weapons, firearms etc. These may also be used for Religious themes.

 **Impact Investing:** Targeted investments aimed at solving social or environmental problems to use capital to trigger change for social or environmental purposes. Example ETFs are Green Bond ETFs.

 **ESG Themed Investing:** Exposure to an ESG sub-sector, like Clean Energy or Gender Equality. Individual companies in the fund may not necessarily score the highest on a general ESG ranking.

## Market Commentary

August proved to be another month with a risk-on sentiment, with equities broadly up for the month and Fixed Income down. The US Dollar, which declined -5.3% against Sterling in the previous month, was down another -2.1% for this month. The S&P 500 in the US had another record month (iShares S&P 500 ETF up 6.8% in USD, 4.7% in GBP) as the index climbed above the record high reached back in February. The US technology focused NASDAQ index trumped that record and was up 9.7% in USD for the month and 39.2% year-to-date (or 73.5% since its trough in March this year). The US Federal Reserve (Fed) confirmed its readiness to offer further support when it announced a shift to average inflation targeting, confirming that monetary policy will remain supportive for the foreseeable future.

The risk-on sentiment investment landscape has been driven by a slowly improving economy, a better than expected earnings season, especially in the US, and the hope for an early approval of a vaccine. The Google Community Mobility Report for the UK, for example, shows that activity in Retail is slowly increasing, although still down -17% against the baseline. As an aside, the only numbers up in terms of mobility are, not surprisingly, parks and residential areas (up 80% and 9% against the baseline). This picture is replicated in nearly all countries around the world.

The drawback is that with COVID-19 cases rising in many European countries, especially France and Spain, this mobility might become restricted again. Macro-economic data for Europe gives a similar state of affairs – positive, but with the growth trend slowing. On the other hand, unemployment in the Eurozone is at a still fairly low 7.8%, showing that the job retention schemes in various countries are working. The SPDR MSCI Europe ETF was up 2.9% in EUR (2.1% in GBP).

A better than expected earnings season and the hope for an early vaccine helped Asian and Emerging Markets as well. The Xtrackers Nikkei 225 ETF rose 6.6% in Japanese Yen (4.2% in GBP), although Japanese Prime Minister Shinzo Abe resigned on the last day of the month due to health reasons. Asia Pacific ex Japan and Emerging Markets were also up in USD, although the iShares MSCI EM ETF was down -1.7% in GBP.

With the general risk-on scenario, bonds struggled in August. Government bonds in major currencies lost ground, especially UK gilts, which were down -3.5% for the month. Corporate bonds fared somewhat better, helped by lower credit spreads and high yield outperformed investment grade both in Europe and the US. Gold reached its all-time high of above \$2,000 per ounce at the beginning of the month but ended up losing ground and finished the month -0.4% down.

## Market Returns Overview - 2 Sep, 2020

We include an overview of the returns of different asset and sub-asset classes to provide a sense of the most recent market returns.

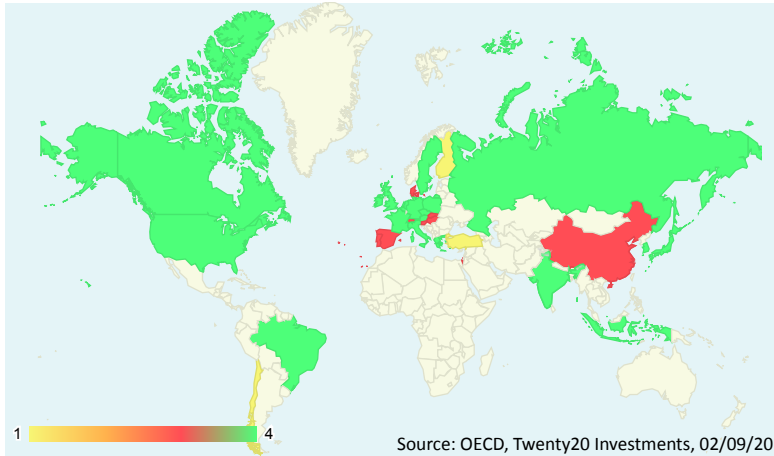
ETF Name	Asset Class	Theme	Asset Region	ytd	1m	1yr	3yr	5yr
iShares Developed Markets Property Yield UCITS ETF USD (Dist)	Alternative	Property	Global	-18.5%	-0.4%	-22.2%	-5.8%	32.8%
Lyxor MSCI AC Asia Pacific Ex Japan UCITS ETF	Equity	Large Cap	Asia Pacific Ex Japan	1.6%	1.8%	4.6%	7.0%	74.3%
iShares MSCI EM UCITS ETF USD (Dist)	Equity	Large Cap	Emerging Markets	-2.4%	-1.7%	0.4%	1.9%	66.9%
SPDR MSCI Europe UCITS ETF	Equity	Large Cap	Europe	-6.5%	2.1%	-4.2%	1.5%	39.9%
Xtrackers Nikkei 225 UCITS ETF 1D	Equity	Large Cap	Japan	-0.4%	4.2%	3.7%	24.6%	74.6%
iShares Core FTSE 100 UCITS ETF GBP (Dist)	Equity	Large Cap	United Kingdom	-18.9%	1.7%	-14.3%	-9.6%	16.3%
iShares S&P 500 UCITS ETF USD (Dist)	Equity	Large Cap	United States	8.5%	4.7%	10.4%	43.8%	119.0%
iShares JP Morgan \$ EM Bond UCITS ETF USD (Dist)	Fixed Income	Government	Emerging Markets	0.6%	-1.6%	-6.5%	8.8%	54.5%
Xtrackers II Eurozone Government Bond UCITS ETF (DR)	Fixed Income	Government	Eurozone	8.0%	-1.5%	-2.5%	6.6%	40.8%
SPDR Bloomberg Barclays Sterling Corporate Bond UCITS ETF	Fixed Income	Investment Grade	United Kingdom	4.4%	-1.0%	4.3%	13.1%	33.6%
Vanguard UK Gilt UCITS ETF	Fixed Income	Government	United Kingdom	8.8%	-3.5%	4.4%	16.5%	32.4%
iShares £ Index-Linked Gilts UCITS ETF GBP (Dist)	Fixed Income	Inflation	United Kingdom	8.2%	-4.5%	-1.9%	13.6%	41.4%
Xtrackers II iBoxx \$ Treasuries UCITS ETF (DR)	Fixed Income	Government	United States	8.2%	-3.3%	-2.7%	12.6%	39.0%

Source: Twenty20 Investments, Markit. All returns in GBP.

## ETF Scorecards

We use a diversified set of signals for each ETF based on macro-economic and market data and on the current risk in the markets. This allows us to measure the probability of higher expected returns for the next period. Below are some of the indicators that make up our set of scorecards.

### Macro-Economic Indicators



The business cycle is split into 4 different regimes:

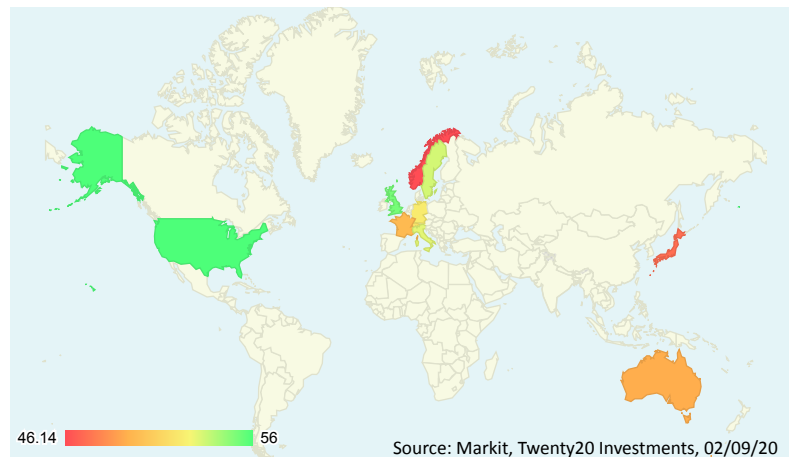
- Expansion ■ Downturn ■
- Slowdown ■ Recovery ■

The [OECD](#) has developed a system of composite leading indicators (CLIs) to provide early signals of turning points in overall economic activity.

The calculations work on the basis that a set of leading indicators for a given country can provide early signals of turning points in economic activity. The CLIs are based on consumer and business sentiment, estimates of economic activity and other macro economic and monetary factors.

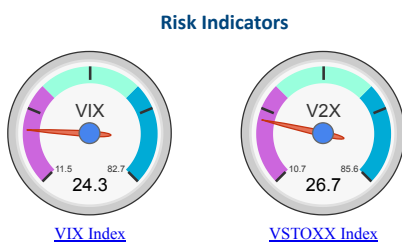
The Purchasing Managers Index (PMI) is a very important sentiment reading, not only for manufacturing, but also the economy as a whole. Although manufacturing is not always the largest component of a country's gross domestic product (GDP), purchasing managers are often the first to know about trading conditions and therefore about company performance.

The key number for PMI is 50. A reading of 50 or higher generally indicates that the industry is expanding. If manufacturing is expanding, the general economy should be doing likewise.



### Risk Indicators

Controlling the risk of an iBasket is at the heart of our investment process. To determine the risk of the overall iBasket we start by studying the volatility of each individual ETF. We then calculate signals for each of the ETFs in an iBasket. From these signals we determine scorecards, which show the expected return on an aggregate level per ETF.



A heightened risk in the markets is often a sign of a subsequent downturn in the economy. If the risk in the markets is high, one tends to reduce the exposure to risky assets and increase the exposure to safer assets like government and inflation-linked bonds. The higher the risk level, the higher the scorecard for any of the safer, low risk ETFs and vice-versa for the more risky ETFs.

A level of between 15% and 20% for the VIX and the VSTOXX can be seen as a neutral risk level, whereas values lower than that are considered as low risk. To get a feeling for how extreme the levels of the VIX and the VSTOXX can vary

over time it is worth noting that during the financial crisis of 2008 and the Covid-19 induced crisis in 2020 they both peaked at above 80%. Risk Indicator Data Source: CBOE, STOXX, 02/09/20

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