Strategy Notes – Protecting Portfolio's Through Market Downturns

Through periods of heightened market volatility, we are often queried by investors as to the current cash allocations within the Funds and under what scenario we would deem it appropriate to raise a large amount of cash relative to the portfolio size. Various investment managers have conflicting views on the appropriate restrictions that should be placed on a manager to 'go to cash' and the investment community remains fairly divided as to the most appropriate outcome - should underlying investment managers be given the overriding ability to make cash calls (based on their perception of valuation and/ or overall market risk), or should that asset allocation decision ultimately be left to the investor and/ or their advisor?

Our personal position on cash holdings is relatively straightforward - **we believe investors have entrusted their capital with us to deploy into actively-managed investment strategies that focus on identifying (and investing in) attractively valued emerging and mid-cap companies.** We seek to provide this outcome for investors on a through-the-cycle basis, allocating capital into businesses that we feel will provide the best return on our investment at each point of the market cycle.

In our view, providing an investment manager the ability to "go to cash" for a substantial portion of their underlying portfolio essentially extends them the flexibility (or temptation) to deviate from individual company analysis and drift toward making broader calls on near-term market direction. 'Market timing' is a notoriously difficult outcome to achieve and one that few professional investment managers have been able to successfully undertake with any degree of regularity either domestically or overseas.

In our experience, generating the best returns through a full market cycle comes simply via ensuring one stays invested in better quality businesses that can withstand shorter term market dislocations and will then be well placed to ultimately benefit as the market recovers. Market drawdowns are an inevitable (and, in some cases, necessary) part of a healthy and well-functioning capital market and the majority are short lived. **The S&P 500 over the last 35 years, for example, has experienced an average -14% retracement in each of those years, yet has still registered a positive return more than 80% of the time.**

Our own experience in managing capital through the GFC provided a solid example of this. While higher quality companies initially fell in-line with the broader market, they were also the first to plateau and then ultimately re-rate aggressively as the recovery took hold. While 2008 was a difficult period in which to manage money, we recorded some of the strongest annual returns of our career through 2009 on the back of

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