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Monthly Monitor

April 2018

Volatility has Returned to Financial Markets

Volatility has returned to financial markets as the long period of calm, enjoyed courtesy of Central Bank support over the last decade, is coming to an end. All market trends end with a crescendo and 2017 will go down as the peak of this low volatility world. Bond markets remained relatively calm even as signs emerged that inflation was returning as growth picked up across the globe. Equity markets enjoyed a remarkable year with the S+P index positive every month for the first time in its history. As with all things in life, if it looks too good to be true, it probably is and periods of volatility are normal in financial markets.

The danger with volatility is trying to control it instead of recognising it for what it is, which is a normal part of financial markets and managing through it. The last decade has seen many in equity markets attempting to control volatility and this has spawned a whole suite of financial products that carry reassuring titles such as "Minimum Volatility" or "Defensive Equity". Trying to be too smart always has a habit of making one look foolish, and this time around has been no exception with minimum volatility funds underperforming the wider market by 10% over the last 2 years. The same trend is seen in multi-asset funds as many today are marketing funds as cautious with bond holdings in excess of 50%. Bonds are the most expensive they have ever been and the fundamentals are turning

So, if you can't put volatility in a box and control it, what can you do? Experience tells us that volatility cannot be controlled or eradicated when it arrives, although there are different ways to manage through it. Downside protection is at the core of the Appian investment philosophy and it's this focus that has driven two of our key investment decisions this year. Firstly, we sold all our bonds. Secondly, as the market enthusiasm around technology stocks in the U.S reached fever pitch early in the year, we sold down our technology holdings. Exploiting opportunities is also an important element of our investment philosophy and the volatility in equity markets did create opportunities that we took advantage of.

"The young have hope, the old have memories" is the phrase that seems most apt to describe the various reactions out there to the return of volatility to financial markets. The young may hope to control it whilst the old recognise this is futile and realise one has to manage through it. Youth is one characteristic the Appian investment team does not have. We believe the actions we have taken on the asset allocation side and within our equities will provide downside protection and generate better risk adjusted returns over the long term.



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4 April 2018

Appian Value Fund	139.40
Appian Equity Fund	177.45
Appian SCOF	199.17
Appian Liquidity Fund	105.56
Appian Ethical Value Fund	98.69
Appian Burlington Property Fund	103.85

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