April 2021

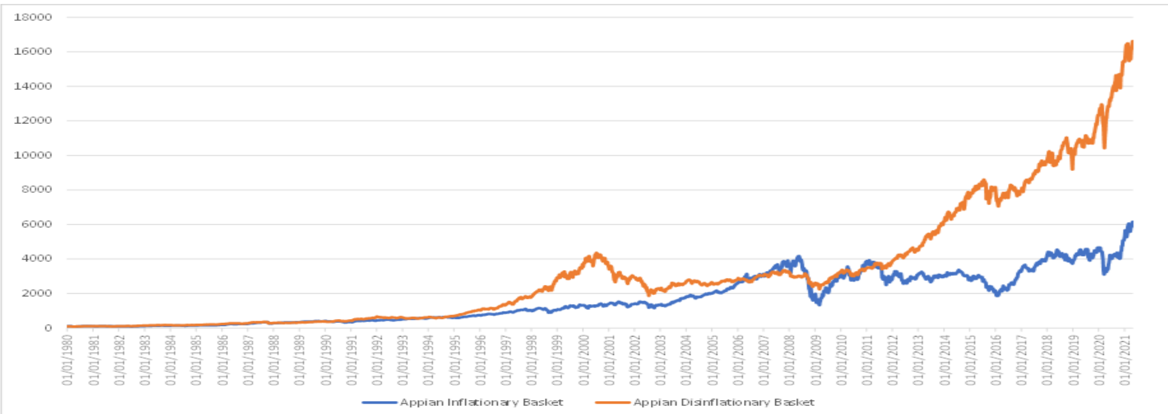
Investing for the Next Decade

Financial markets are noisy places at the best of times as asset prices move daily with economic data releases, political developments, and individual company news flow. Most investors would agree that getting caught up in this noise is not a productive use of one's time and that getting the big decisions right is what drives investment performance. So why is the industry fixated with short term issues? Firstly, it is fun. Many market participants enjoy immersing themselves in the chaos of this short-term news flow. Secondly, being able to talk about the latest piece of economic data or earnings guidance from a large company makes market participants sound important. However, the final reason is possibly the most important, it keeps everyone busy and stops them from having to confront the real longer-term questions that firstly are more difficult to answer but secondly are the ones that really matter. As the global economy emerges from the carnage caused by the pandemic, now is the time to tackle the big questions that will determine investment performance over the next decade.

The "Bond" question is the elephant in the room today. German 10-year bonds still offer a negative yield, whilst the "attractive" government bond market of today is the United States, where the 10-year yield is 1.6% at a time when the Federal Reserve is targeting inflation above 2%. Neither investment should be appealing to long term investors and the same holds true for the corporate bond market, where credit risk is being completely ignored. The argument for bonds at these valuations is that the world is set to become more deflationary. This was the reality of the last economic cycle post the Financial Crisis but it's hard to argue that this is likely today with aggressive monetary policy and fiscal policy aimed at producing a more inflationary environment. To us, logic says the era of out-performance of disinflationary assets has been brought to an end by the response to the pandemic by monetary and fiscal authorities. In March, the Bloomberg Barclays U.S. Long Treasury Total Return Index suffered a 20% correction. It has been over 40 years since this Index was last in bear market territory. If US Government long duration bonds, the flagship disinflationary asset is significantly under-performing, this is a signal that something has changed in markets.

- **Mind the Gap: Huge Potential for Inflationary Assets to Out-Perform Disinflationary Assets**

Appian Inflationary Basket versus Appian Disinflationary Basket

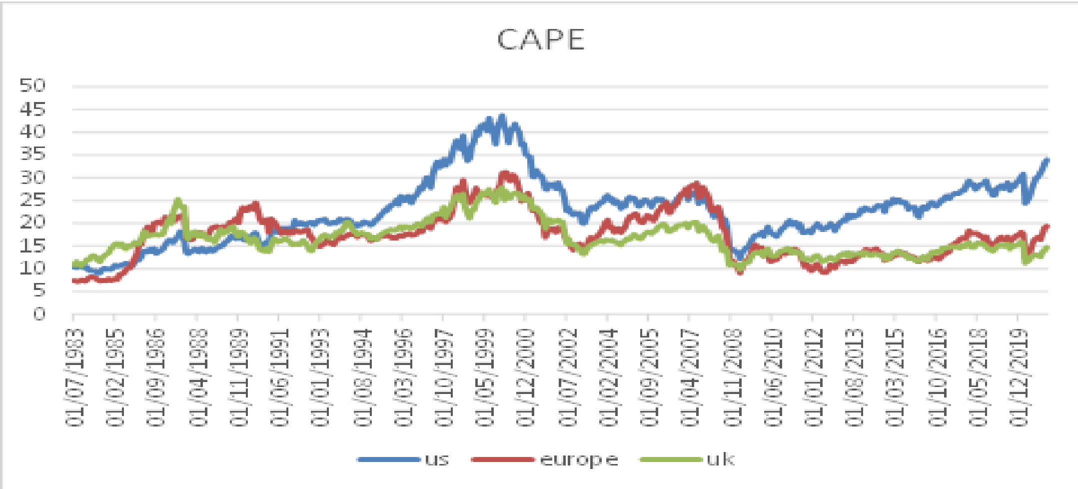


Source: Appian, Eikon Refinitiv, 29th April 2021
Inflationary Basket: US Banks (total return), Gold Bullion, World Developed (ex US) equities (total return), GSCI Commodity Index, Silver (Handy and Harman), UK Mining Index (total return)
Deflationary Basket: US 10 Year Bond, US$ (DXY Weighted), US Technology Index (total return), US Pharmaceutical Index (total return).

This unattractiveness of fixed income as an asset class proposes the argument that the only asset class large enough to replace bonds is equities. This means that equities are a guaranteed winner for the next cycle. If only it were so simple. The largest stock market on the globe is at valuation levels we find terrifying. Relative valuations tell us that Investors for the next decade will have to move away from investing in the United States in order to generate returns.

- **Recognise the Opportunity: It is in Non-US Equities**

Cyclically Adjusted Price Earnings Multiples for the US, Europe and the UK

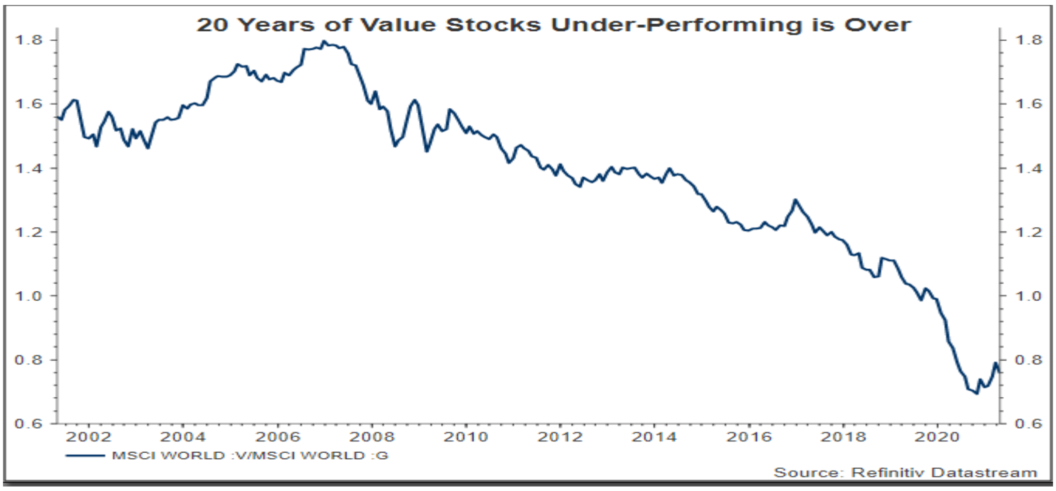


Source: Appian, Eikon Refinitiv, 29th April 2021

One significant reason for the higher relative valuations in US markets today is that the US market has greater exposure to growth sectors such as technology that perform in a low inflationary backdrop. This suggests the question as to whether we need to see a style shift from growth to value in order for International equity markets to out-perform. We believe this is needed and is already underway as relative valuations coupled with a cycle that is more supportive of economic growth has started to propel value stocks higher.

- **A Decade for Value Out-Performance Ahead?**

Relative Performance of MSCI Value Index and MSCI Growth Index



Source: Eikon Refinitiv, 30th April 2021

Outside of the two large asset classes, where else is investable today? The consequence of the lack of appeal of fixed income is that there is plenty of speculative activity in other parts of securities markets – the most high profile of which is the Crypto currency market. Are these speculative markets investable for the next decade? We don't believe so as they are impossible to value. That doesn't mean that there isn't alternatives to equities worth investing in but the alternatives we find attractive have strong underlying fundamentals. Property as an asset class has the potential to offer good returns, albeit we believe that over the next decade, cheaper higher yielding property assets will considerably outperform the "prime" part for the property market. Infrastructure assets, whether they are in renewable energy or are more traditional defined, will continue to offer value and those assets with inflation protected income look particularly attractive. Hard assets, like Commodities may be the big winner of the next decade as investors once again recognise their real importance to the global economy. A common question that is asked is whether Cash has a place in portfolios over the next decade. If inflation is picking up the obvious answer is no. However, financial markets may be more volatile over the next decade and cash has potential to add to performance if deployed properly. A recent example was our decision to increase the equity weightings, in our multi-asset funds, significantly in February and March of last year. This added substantial performance to our Multi-Asset Funds and would not have been possible without having access to cash.

At Appian, our approach to asset allocation is long-term in nature and we remain happy to let others play the short term guessing game. We don't know how markets will perform over the very short term, but neither does anyone else. We do however have strong convictions over the asset allocation that will work over the next decade. This conviction is reflected in our asset allocation across our multi-asset funds and the composition of our equities which is are value focused.

Appian Multi-Assets Funds Asset Allocation:

Assets	Appian Multi Asset	Appian Impact Fund	Ranges
Equities	51%	51%	30-60%
Bonds	5%	5%	0-30%
Cash/Cash Equivalents	18%	21%	10-30%
Property	5%	4%	0-20%
Alternatives			10-30%
Forestry	7%	6%	
Infrastructure	8%	13%	
Commodities	3%	0%	
Venture Capital	3%	0%	

Source: Appian, 1st[th] April 2021

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Appian Asset Management

Monthly Monitor

Appian AM NAV's Fund Prices 31-03-2021

NAV		MTD	QTD	YTD	SI
		%	%	%	%
AMAF	169.8837	3.64%	8.71%	8.71%	69.88%
AGDGF	230.1706	6.80%	15.73%	15.73%	130.17%
AGSCOF	217.7647	5.22%	13.60%	13.60%	117.76%
AIF	126.58	3.76%	7.07%	7.07%	26.58%
AELF	102.7562	-	-	-0.30%	2.76%
ABPF	123.67	-	-	0.00%	23.67%

Appian Asset Management Limited is regulated by the Central Bank of Ireland.

Warnings

- **If you invest in any of the funds you may lose some or all of the money you invest.**
- **Past performance is not a reliable guide to future performance.**
- **Appian Funds may be affected by changes in currency exchange rates**
- **The value of your investment may go down as well as up.**

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