STONEWOOD

WEALTH MANAGEMENT

Quarterly Investor Report

Stonewood Global Flexible Fund

At 30 September 2020

30 October 2020

Performance

The Fund seeks to balance appreciation of capital, income generation and risk of loss with a global diversified portfolio of equities, fixed income securities, listed real estate and, at times, commodity linked instruments. The Fund has a benchmark return of US Dollar LIBOR plus 400 basis points. It is anticipated that over longer time horizons this return should approximate the return achieved by investing in global equities but with lower volatility. It is intended that the Fund will always have equity exposure of at least 20%.

Total % rate of return in US$ at 30 June 2020[2]	Since Inception 2 November 2016	Latest 3 Year	2019	2020 Year to Date[3]	Latest quarter[4]
Stonewood Global Flexible Fund (Class B)[1]	**(0.2)**	**(0.5)**	**7.2**	**0.7**	**2.8**
US Dollar Libor plus 400 basis points ("Benchmark")	5.6	5.7	6.3	3.4	1.0

Past performance is not a reliable indicator of future results. The Fund's share prices fluctuate and are not guaranteed. Returns may decrease and increase as a result of currency fluctuations. When making an investment in the Fund, an investor's capital is at risk.

[1] *Performance of other fee classes are available on our website.*

[2] *Returns are annualised for periods longer than 1 year.*

[3] As at 30 September 2020

[4] 3rd Quarter of 2020

For the third quarter of 2020, the Fund delivered a return of 2.8% vs 1.0% and 8.3% for its benchmark and global equity markets, respectively. Year to date, the Fund has returned 0.7% with an average equity exposure of 41%. This compares to a 3.4 % and 1.8% return for its benchmark and global equity markets, respectively. The non-equity portion of the portfolio contributed approximately 3.9 percentage points to performance year to date, outperforming equity markets by approximately 6.5% assuming an average exposure of circa 60%. Our equity book is down approximately 7.8% year to date and its performance amounts to the key source of our underperformance year to date.

Entercom Communications was responsible for most of this underperformance, reducing the NAV by 5.0 percentage points year to date. The rest of the equity book contributed 1.9 percentage points to the NAV or returned 4.8% year to date. The Entercom position was closed at the end of Q1 and we did not increase our overall equity exposure after the March sell-off; this created an underweight equity drag. In hindsight, increasing our equity exposure from mid-March would have allowed us to claw back much more of the Entercom loss but we believed at the time that it was not prudent to do so based on fundamental grounds. We continue to hold this view with the exception of a few areas of the market, which we believe offer interesting prospects for risk adjusted return.

The third quarter saw equity markets continue to rally and recover from the lows reached at the end of March. Fixed income was flat or mildly positive over the quarter but volatile especially on the longer end of the yield curve. The gold price has risen strongly over the quarter, however, the upward momentum seems to have come to halt as the price dipped from the early August peak of $2,067 per ounce to the $1,900/oz level and has remained range bound.

We intend to keep our equity exposure and fixed income duration low as well as maintain a significant gold position as hedge against any major currency debasement as well as a significant decline in equity markets. We have meaningfully increased our protection against inflation by including Treasury Inflation Protected Securities in Q3. Our TIPS position current sits at 9% of NAV. We have started to move out of short-term treasury's as there isn't any benefit of holding them over cash at current yields. The short-term treasury exposure is 13.6% and we'll look to work this down over the coming quarters. In an environment of stretched multiples and low yield to maturities, we continue to demand high margins of safety for our equity and fixed income positions.

Inflation and deflation are bad for equities in general and there exists a risk-reward asymmetry in quality fixed income that makes betting on duration akin to picking up pennies in front of a steam roller. Both deflation and inflation will have a profound effect on equity market valuations in general as the market risk premium will likely skyrocket. This will cause a major correction in the earnings multiple that will likely exceed any offsetting effects from earnings and dividend growth. Deflation will be most damaging as public stimulus will largely be ineffectual; companies will be left to fend for themselves whilst they experience falling prices and sticky cost bases. In either scenario, you need to pick equities with mispriced pricing power and balance sheet durability. Pricing power and balance sheet flexibility gives these businesses a degree anti-fragility that will enable them take advantage of its competitors' weaknesses; which will enhance future cashflow streams by capturing more market share. Unsurprisingly, it's incredibly rare to find equities with these qualities at a good price in today's market. Being invested in quality at stretched multiples will materialize as false haven in deflationary or inflationary scenarios. Therefore, cash is the next best alternative to quality at reasonable value. We think that having cash to deploy even in an inflationary context will beneficial because markets will likely price the inflation upfront and potentially over price it, giving the investor an opportunity to deploy before material purchasing power damage is realized on cash balances.

Notwithstanding the above, there is a scenario where equity multiples continue to climb and even rocket up. In this scenario, government intervention manages to offset the damage on the real economy caused by the Covid shock and the world experiences persistently low inflation and a reversion to the long-term growth curve. The relatively higher yields of the equity markets will attract major flows from the anemic yields available in the government and investment grade fixed income market (see figure 1). The new pricing will broadly reflect a new norm in discount rates and in this case paying up for quality will pay-off.

Figure 1

Fixed Income 30/09/2020 YTM	
Asia HY	7.6%
US HY	6.1%
USD EMD	8.1%
Local EMD	4.6%
Europe HY	4.4%
US IG	2.1%
DM Gov't	0.5%
US Treasury	0.5%
Cash	0.1%

Equity 30/10/2020 NTM	
SP500	4.3%
US	4.5%
DM Ex-US	6.3%
DM Asia	6.5%
DM Europe	6.2%
EM	7.8%
EM Asia	7.5%
EM EMEA	10%
EM LATAM	7.5%

Source: JP Morgan and Factset

We think the third, more benign, scenario is less probable; in fact we hold the view that markets will experience deflationary pressures in the short term and then inflationary ones in long term. Realistically, this will be impossible to time and of course we could be wrong. We have positioned the portfolio according to our views but have been careful to factor in the probability of being wrong in our weights. The positioning is designed to preserve capital across multiple scenarios.

Portfolio Positioning

Our asset allocation strategy is driven by the following:

- Equity valuation multiples are well above historic norms significantly increasing the risk of capital loss and/or poor future returns.
- Corporate earnings are under pressure.
- Numerous economic statistics indicate that the global economy is in the late stages of the business cycle.
- Corporates have substantially increased debt levels over the last 10 years and credit quality has deteriorated.
- Government debt has increased significantly aided and abetted by central banks. This is distorting the key pricing mechanisms of global financial markets and leading to significant misallocations of capital.

Considering the above our asset allocation strategy is to:

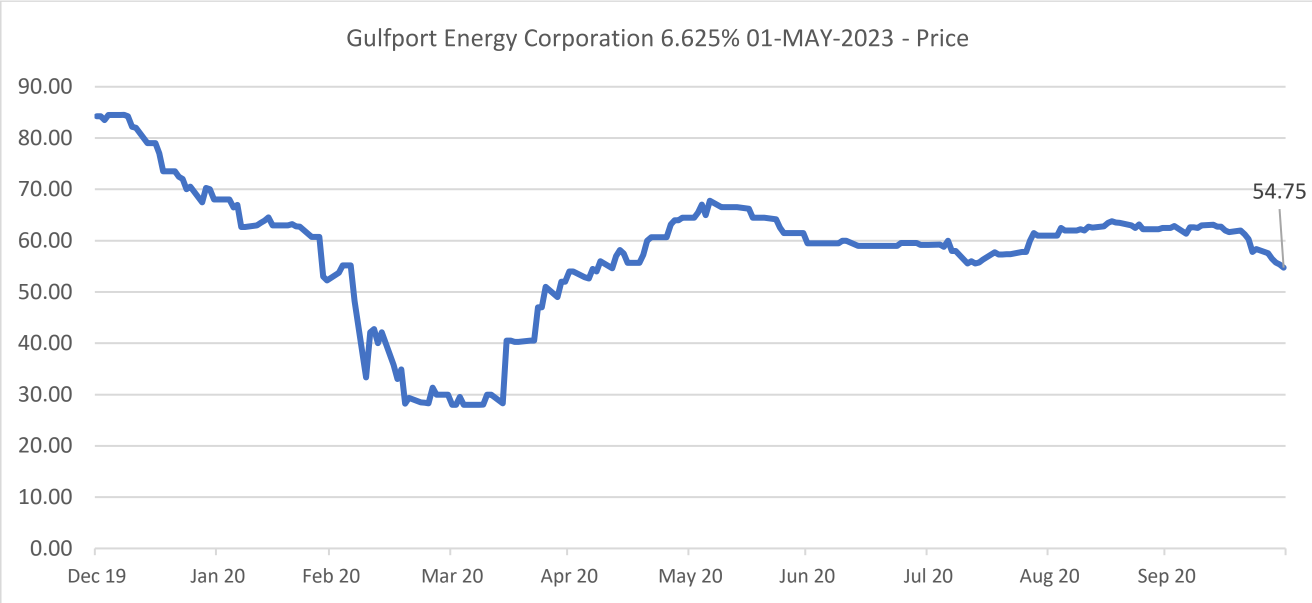
- Retain equity exposure at the lower end and focus on specific opportunities that demonstrate significant relative value.
- Concentrate this equity exposure in stocks that have pricing power and are not path dependant
- Limit the fixed income allocation, other than a tactical allocation below, to short term US Treasuries; short term government bonds of a portfolio's base currency; and high-quality corporate debt with a rating above "A"
- A tactical allocation to longer dated government bonds to benefit from a recessionary environment which would, we believe, result in a decrease in longer term interest rates. The allocation is sized to ensure that the Fund is not significantly impacted by increasing interest rates.
- A tactical allocation to Inflation Protected Securities to protect against the rising probability of inflation as central banks look to pump more money into system to engineer a recovery and inflation
- A strategic allocation to gold as a hedge against any significant deterioration in the health of the world's global financial system, which we believe is prudent given global debt levels and monetary interference.

Currently, the asset allocation is 39% in Equity, 42% in Fixed Income, 8% in Gold and 11% in cash. Approximately 9.3% of the NAV is in 7-10 year TIPS and including Barrick Gold Corporation and Franco-Nevada Corporation, the total gold related exposure amounts to 15.4% of NAV. The fixed income exposure, except for the Gulfport bond (5% of NAV), is AAA-A rated. Overall, this reflects a conservatively positioned portfolio, which we expect will outperform general equity markets in all scenarios except for the benign one mentioned above but most importantly preserve capital first.

Notable changes to the portfolio include:

- Increased our exposure to treasury inflation protected bonds to its current level of 10% NAV
- Reduced low value add short-term treasury's, we expect continue to optimize our short-term treasury exposure
- Sold out of non-core equity positions such as Domino's Pizza, Facebook, Bayer and Liberty Media Corporation

Investment Insights- Gulfport bond



Approximately 5% of the portfolio consists of an investment in some May 2023 Gulfport Energy Corporation 6.625% senior, unsecured bonds. These were bought at 63% of par. At this price we effectively receive a 10% yield on our investment based on the 6.625% annual coupon. We acquired these bonds knowing that Gulfport was in weak financial position. To mitigate the risks of losing capital in the event of bankruptcy we considered the price and maturity of the issue in context of what we thought the proven developed reserves were worth. Proven developed reserves require much less capex than undeveloped reserves because the wells have been drilled and largely prepared for production. At the time our purchase the ball park estimate of the most probable, least capital intensive reserves were in the region of $1.4bn and total proved reserves of $1.7bn. The market value Gulfport's debt was approximately $1.3bn so there was significant headroom and with the prospect of greatly improving natural gas prices in Q4 and 2021 based on our research in the space, we thought the probability of Gulfport being able to refinance its earliest maturing bonds to be good. Consequently, we elected to invest in the earliest maturing bonds with the least amount of capital outstanding to increase our chances of being refinanced out at par, all the while pocketing the 10% cash yield.

Covid has impacted this trade by disrupting supply and demand dynamics and most importantly access to capital. It has proven to be much more difficult for Gulfport to refinance. This has led to Gulfport's management electing to miss interest payments due in October and November and initiate a 30 day forbearance period to force a sit down with creditors to negotiate a restructure. If an agreement can't be reached, Gulfport will be in default and begin bankruptcy proceedings. In event of this we believe that we have bought into the debt at low enough price to mitigate a significant loss of capital. This is a valuable resource with extremely attractive long-term prospects, we are confident that there will be a number of buyer's keen to get their hands on this resource at close to or even above our ball-park estimate of total proved reserves.

We shall monitor this process closely and keep our investors updated with the outcome process. We should understand the way forward from the 13th of November.

Notes and Disclaimers

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All statistical data and Fund performance in this document is unaudited and has been extracted and calculated from the records and reports of the Fund's Administrator.

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The Fund's share prices are obtainable weekly from the Manager on request and are published weekly on Morningstar.

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