# 1Q 2021 | Global Strategies Review

WST CAPITAL MANAGEMENT

## International Select RM (ISRM)

During 1Q 2021, the ISRM composite returned -0.25% gross (-0.39% net) versus an MSCI ACWI ex-US Index that added 3.60%. Since inception, ISRM has added 4.53% gross (+3.79% net) underperforming the index return of 6.11%.

ISRM was conservatively positioned going into the new year as the model sought to mitigate against any drawdowns in early 1Q. The strategy was allocated ~25% to minimum volatility global equities throughout January with the remaining exposures in dollar-hedged international bonds and short-term Treasuries. ISRM began to increase risk exposures intra-quarter as allocations to global Industrials and Materials sectors were added in addition to an allocation to small-cap developed markets. Other notable intra-quarter positioning included global Utilities and Consumer Staples sectors although these exposures were ultimately short-lived. As market dynamics shifted, the model removed previous sector allocations in favor of global Technology and Consumer Discretionary sectors – positioning that held for the remainder of the quarter. Further changes in equity were made as ISRM allocated to international stocks at ~40% of strategy assets. To close out the 1Q, equity exposure totaled ~75% while the remaining assets were allocated to intermediate-term Treasury notes. The risk management framework of ISRM was modestly featured in the first quarter as fixed income and cash exposures averaged ~54% in the period.

## Diversified Income RM (DIRM)

The DIRM composite returned -2.24% gross (-2.30% net) during 1Q, outperforming the Global Aggregate (-4.46%) and underperforming the NASDAQ Multi-Asset Diversified Income Index (+8.75%). Since inception, DIRM has added 3.43% gross (+3.01% net) outperforming the Global Aggregate (+2.26%) and slightly underperforming the NASDAQ Multi-Asset Diversified Income Index (+3.46%).

The strategy entered 1Q seeking to enhance total return through a diversified fixed income portfolio aiming for income generation and capital preservation. Allocations to begin the period included ~20% dollar-hedged emerging markets sovereign bonds, ~20% Treasury bills and ~10% short-term high yield. Short duration fixed income was predominately featured in the portfolio during the period as DIRM sought to minimize interest rate risk as investors saw significant rises in long term bond yields. The short duration fixed income exposure held by the strategy averaged ~39% over the period. Amid the increased volatility intra-quarter, DIRM briefly rotated to defensive assets such as intermediate- and long-term U.S. Treasuries - although these allocations were transient. As volatility subsided, the strategy reallocated across the fixed income universe seeking to increase risk exposures. In early March, DIRM allocated back to high yield positioning with an emphasis on short duration high yield attempting to insulate the portfolio from the negative impacts of rising interest rates. The strategy ended the quarter with exposures comprising ~40% high yield, ~20% dollar-hedged emerging markets sovereign debt and the remaining assets in short duration fixed income and cash equivalents.

| **Annualized Returns** *as of March 31, 2021* | 1Q '21 | YTD | 1 Yr | 3 Yrs | 5 Yrs | Since Incep |
|---|---|---|---|---|---|---|
| International Select RM Composite (Gross) | -0.25 | -0.25 | 4.86 | 1.87 | 6.71 | 4.53 |
| International Select RM Composite (Net) | -0.39 | -0.39 | 4.21 | 1.17 | 5.98 | 3.79 |
| MSCI ACWI ex-US Index | 3.60 | 3.60 | 50.03 | 7.02 | 10.28 | 6.11 |
| Diversified Income RM Composite (Gross) | -2.24 | -2.24 | 3.38 | 2.27 | 2.69 | 3.43 |
| Diversified Income RM Composite (Net) | -2.30 | -2.30 | 2.98 | 1.85 | 2.27 | 3.01 |
| BBg Barclays Global Aggregate Index | -4.46 | -4.46 | 4.67 | 2.80 | 2.66 | 2.26 |
| NASDAQ Multi-Asset Div. Income Index | 8.75 | 8.75 | 47.62 | 3.29 | 4.01 | 3.46 |
| Global Allocation RM Composite (Gross) | 1.55 | 1.55 | 8.77 | 3.79 | 6.29 | 4.81 |
| Global Allocation RM Composite (Net) | 1.45 | 1.45 | 8.34 | 3.34 | 5.82 | 4.35 |
| 60% ACWI / 40% Agg Blended Benchmark | 1.42 | 1.42 | 31.12 | 9.82 | 9.70 | 7.84 |
| Global Bond RM Composite (Gross) | -6.43 | -6.43 | 1.36 | -2.56 | 1.19 | 0.90 |
| Global Bond RM Composite (Net) | -6.50 | -6.50 | 0.93 | -2.94 | 0.73 | 0.42 |
| BBg Barclays Global Aggregate Index | -4.46 | -4.46 | 4.67 | 2.80 | 2.66 | 2.26 |
| Emerging Markets RM Composite (Gross) | -5.72 | -5.72 | 3.80 | -3.13 | 0.87 | 2.01 |
| Emerging Markets RM Composite (Net) | -5.74 | -5.74 | 3.70 | -3.22 | 0.81 | 1.95 |
| 50% EM Equity/ 50% Bond Benchmark Blend | -1.09 | -1.09 | 29.35 | 5.22 | 7.75 | 8.58 |

Source: FactSet. Composite inception dates are 6/30/2013, 9/30/2013, 12/31/2014, 12/31/2014 and 12/31/2015 for ISRM, DIRM, GARM, GBRM & EMRM respectively; benchmark SI returns refer to those dates.

## Global Bond RM (GBRM)

GBRM was conservatively postured to begin the new year as the strategy's objective is to enhance total return through a global multi-sector fixed income approach. Early allocations included ~40% short duration fixed income and ~30% short-term Treasuries as the model sought to minimize interest rate risk in this period of rising nominal yields. Positioning changes seen early in the quarter resulted in a long USD allocation to capitalize on dollar strengthening. Subsequently, the model added dollar-hedged EM sovereign bonds and a long-term Treasury short position seeking to diversify the strategy's return stream. These exposures were ultimately removed as GBRM looked to navigate the fixed income landscape. Other notable allocations during the quarter included an exposure to convertibles ranging ~10-38% of assets, a position that was held through the end of the quarter.

## Emerging Markets RM (EMRM)

A multi-asset portfolio targeting growth and income from emerging markets, the EMRM composite returned -5.72% gross (-5.74% net) in 1Q, underperforming the 50/50 emerging equity/ fixed income blend that lost -1.09%.

EMRM was allocated ~50% to dollar-hedged emerging markets equities and ~50% to dollar-hedged EM bonds to begin the quarter. Early in the period, the model removed EM equity exposure and trimmed the EM fixed income allocation to ~25% as international markets pulled back. The strategy briefly allocated to dollar-hedged emerging markets high yield bonds intra-quarter - although this exposure was removed as EMRM sought to minimize risk. Other notable holdings during 1Q included an overweight to U.S. Treasuries as rising virus cases and hospitalizations in India and South America lead to emerging markets turbulence. Due to the heightened levels of uncertainty around Covid-19 in emerging market nations, the model finished the quarter with ~50% exposure to EM equities with the remaining strategy assets in cash equivalents as EMRM pursued opportunistic entry for increasing exposure to risk assets.

## Global Allocation RM (GARM)

The GARM composite returned 1.55% gross (+1.45% net), outperforming the 60/40 benchmark (+1.42%) in 1Q. The strategy has added 4.81% gross (+4.35% net) since inception, compared to the benchmark (+7.84%) on a gross basis.

Global equity exposure for GARM averaged 35% over 1Q while the strategy has averaged ~40% since strategy inception. When examining the equity allocation granularly, international equity exposure averaged only 10% during the quarter while U.S. equity exposure averaged 25% during the same period. The fixed income allocations within the strategy averaged 65% during the quarter as the underweight to equities and overweight to fixed income were a function of the looming uncertainty around additional vaccine rollouts, 2021 corporate profitability and stretched market valuations. The model's dynamic risk-budgeting between asset classes helps to drive allocation decisions and mitigate drawdowns leading to the conservative positioning over the quarter.

GARM opened the quarter with roughly 25% in equity, as both the international and U.S. equity sub-models were conservatively postured coming into the new year. This underweight to equities was consistent during the period as was the overweight to fixed income securities. The defensive positioning of the strategy was a reflection of the three sub-models driving allocation decisions for GARM. Fixed income exposures during the quarter comprised dollar-hedged emerging markets sovereign bonds, short-term U.S. high yield and short duration fixed income. These short duration bond exposures were a staple of GARM's fixed income segment during the period as the model sought to mitigate interest rate risk in the environment of rising nominal yields. Other notable positions in the portfolios during the quarter were U.S. Treasuries, floating rate bonds and precious metals.

# Notes & Disclosures

Index Returns – all shown in US dollars

All returns shown trailing 3/31/2021 for the period indicated. "YTD" refers to the total return as of prior-year end, while the other returns are annualized. 3-month and annualized returns are shown for:

- The NASDAQ US Multi-Asset Diversified Income Index is designed to provide exposure to multiple asset segments, each selected to result in a consistent and high yield for the index. The Index is comprised of securities classified as US equities, US Real-Estate Investment Trusts (REITs), US preferred securities, US master-limited partnerships (MLPs) and a high yield corporate debt Exchange-Traded Fund (ETF).
- The Bloomberg Barclays Global Aggregate Index, which measures global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.
- The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 26 Emerging Markets (EM) countries

An index is a portfolio of specific securities, the performance of which is often used as a benchmark in judging the relative performance to certain asset classes. Index performance used throughout is intended to illustrate historical market trends and performance. Indexes are managed and do not incur investment management fees. An investor is unable to invest in an index. Their performance does not reflect the expenses associated with the management of an actual portfolio. No strategy assures success or protects against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. All investing involves risk including loss of principal. Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal, and potential liquidity of the investment in a falling market. Past performance is no guarantee of future results.

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