



## A bad year for liquidity (If you are one of the unlucky)

Whilst the markets continue to show clients positive gains, for some investors a very good year for investment returns could have been a very bad year for liquidity.

Retaining liquidity is a core part of investment management, maintaining, as it does, clients' core premise of strong expectations for liquidity. The drawdown of a pension or an unexpected major life event all require the need to raise capital, and quickly, so the fear of not being able to release your investment monies when you need them, can send shudders down your spine.

Clients' confidence in the markets' ability to deliver liquidity when required, is an unspoken backbone of why many invest their money. No one invests on the premise of being unsure if they can get all their money back at any given time.

This year has seen the demise (in a liquidity sense) of the Woodford funds. We had an excellent long-term manager seemingly on the wrong side of the liquidity issue who did not really understand the core premise that liquidity is paramount to clients. With hindsight, for many it seemed like a disaster waiting to

happen and many, like TAM, were worried about liquidity (and performance) way before the event. For those investors that owned Woodford Funds as their only investment or their core investment, the lack of liquidity was catastrophic. Lack of liquidity leads at best to grumbles from some clients, and at worst to formal complaints and severe financial upset for those who urgently need their money.

And now the M&G property fund, after a poor performing year, has gated its funds. We don't know for how long. The rest of the property fund market seems sanguine and remains open for business, but if history is anything to go by, it's unlikely to be a single event.

Property funds are great long-term vehicles if you are prepared for the swings in pricing (bid to offer and backagain) and potential illiquidity (their investment in assets which cannot be quickly sold – hence gating). It's the same old story of a daily priced and traded fund with long-term saleable assets - it's a mismatch. The FCA has been remarkably open with the market on their liquidity fears and has warned that we should be very clear to clients about where the risks lie. We all need to be clear and transparent, informing clients of the possibility and consequences of illiquidity.

This gets us back to the area that the FCA, the Fed, the SEC and the Bank of England have all raised liquidity concerns about - the corporate bond market. The investment capital available to trading houses has been curtailed by regulatory capital requirements, and a mountain of new issuance over the past few years is going to mean that at some point in the future (distant one hopes), this will almost certainly give rise to a further illiquidity event. Higher yield and more esoteric corporate bonds are obviously at more risk than the core company debt, but the regulators are very rarely wrong.

We should be cognisant that any fund manager can gate their fund on unusual events and that comes down to bulk sales and illiquid underlying assets. It is there to protect all investors, however frustrating that feels to those caught in the state of limbo that gating proffers.

The safest course is to stay in the highest liquid products possible, remain vigilant on outflows in investment product, and stay clear (or as clear as one can) of those funds/areas of investment that can be seen to offer a liquidity issue in the wrong environment. Watch the tapes for individual fund problems, because once you have a "problem" in a fund - in its management, its structure, its outflows – it's quite a difficult one for the investment house to extricate itself from.

As we get towards the later cycle and ahead of any real downturn, which TAM are not expecting just yet, liquidity events may become more common, but as always, only time will tell. Diversification certainly reduces liquidity risk, and TAM are a strong advocate of not allowing one fund or group of funds to dominate a portfolio.

Like many, TAM did not own any Woodford funds, does not own property funds, and is extremely conscious of corporate bond liquidity. We scan the horizon consistently, always remembering that

This document is not intended in isolation as an offer or solicitation or recommendation to use or invest in any of the services or products mentioned herein. Investors should be aware that the value of the portfolio and the income from it can go down as well as up so you may get back less than you invested. Past performance is not necessarily a guide to future returns. The value of investments denominated in foreign currency may fall as a result of exchange rate movements. The investments and services referred to in this document may not be suitable for all investors and, if in doubt, you should seek qualified independent financial advice. Any opinions, expectations and projections within this note are those of TAM Asset Management International Limited, represent only one possible outcome and do not constitute investment advice.

TAM Asset Management International Limited is regulated by the Financial Services Commission of Mauritius and is an authorised Financial Services Provider regulated by the South African Financial Service Conduct Authority.