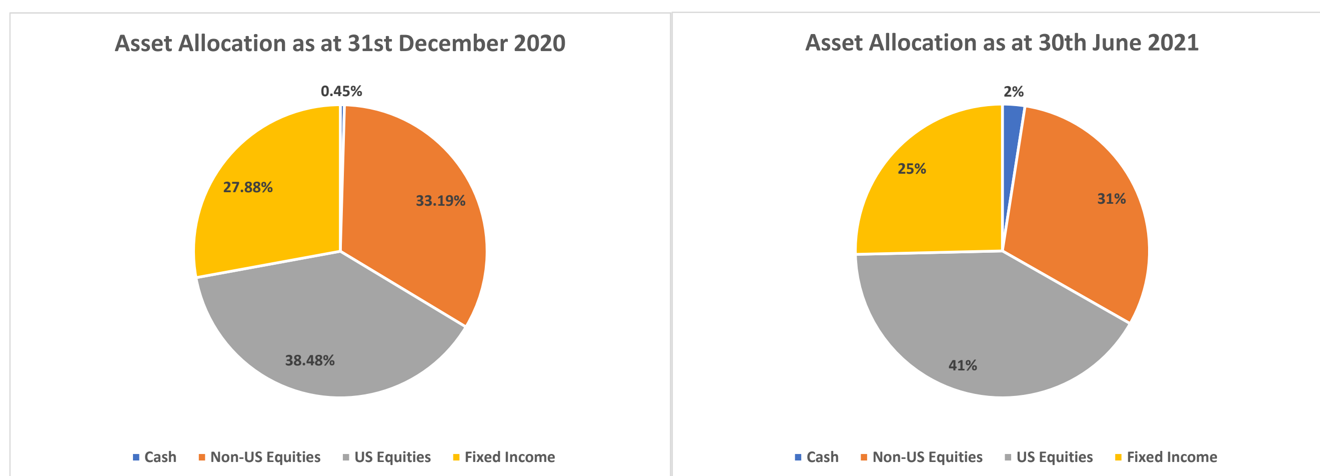
27th September 2021

Investment Advisor's Report

In the six months ended 30th June 2021, the Plan returned 9.12% compared to 7.64% for its benchmark. Over the last 12 months the Plan returned 26.44% compared to 22.62% for its benchmark. Since inception, the Plan returned 4.27% per annum compared to 5.66% per annum for the benchmark.

On June 1, 2020 RF Bank & Trust (Bahamas) Limited (RF) took over as investment manager. The Plan's portfolio asset allocation as of 31st December 2020 and 30th June 2021 are detailed below. Subsequent to the Plan's fiscal year-end of 30th June, exposure to small-cap and medium-cap US equities was reduced. Approximately half of the proceeds were invested in large-cap and the health care sector, with the balance going into short-duration fixed income. The strategy is to reduce downside risk and position the Plan to take advantage of a possible US equity market correction.



The table below notes the individual asset managers selected by RF and their performance. The fixed income portfolio is managed by Weaver C. Barksdale, the US equity portfolio is managed by Polen Capital, Aristotle Capital Management, Congress Asset Management, and Fuller & Thaler Asset Management. The non-US equity portfolio is invested in the OAM Asian Recovery Fund and the OAM European Value Fund.

Grand Cayman Pension Plan

Performance (Net) vs. Benchmark YTD. (As at June 30, 2021)

Manager	Strategy	Portfolio	Benchmark	Difference	Comment
Weaver C. Barksdale	USD Fixed Income	-1.18%	-0.90%	-0.28%	In Line
Polen Capital - Large Cap	US Large Cap Growth	14.92%	12.99%	1.93%	Outperformed
Aristotle Value Equity	US Large Cap Value	17.53%	17.05%	0.48%	In Line
Congress Mid Cap Growth	US Mid Cap Growth	15.86%	10.44%	5.42%	Outperformed
Fuller & Thaler SC Behav Eq	US Small Cap	23.36%	17.54%	5.82%	Outperformed
OAM Asian Recovery	Asian Equities	9.93%	6.40%	3.53%	Outperformed
OAM European Value	European Equities	18.75%	12.35%	6.40%	Outperformed
Grand Cayman Pension Plan		9.12%	7.64%	1.48%	Outperformed

We are pleased to note that all the funds outperformed or were in-line with their benchmarks.

The U.S. equity markets has shown a strong resilience through 2021 with the S&P returning 14.4% for the first half of 2021 and 14.7% YTD. In the second quarter, 85% of S&P 500 companies earnings exceeded analyst estimates. So far this year the good news on the economy, jobs, earnings and revenue growth has offset the threat posed by the pandemic but with the delta variant now causing an increased in covid cases and hospitalizations in the U.S., it is worth watching the situation for the rest of the year.

The major driver of the U.S. economy in 2021 has been the rebound of consumer spending growing at a rate of 11.3% in the second quarter. This helped to drive GDP growth higher with annualized growth rates of 6.3% and 6.4% in the first and second quarter, respectively. It is worth noting that retail sales have peaked at the end of the first quarter and dropped every month sense. At the end of July retail purchases fell by 1.1%, restaurants and bars were a bright spot, with sales rising 1.7% over the month, while sales at non-store retailers—a proxy for online retail sales—fell 3.1%. The decrease in spending is beginning to cause concerns that a combination of covid and higher prices may cause a slowdown of economic growth for the rest of the year.

A recent report from the University of Michigan showed buying conditions deteriorated to the lowest since April of last year as inflation remained elevated. Morgan Stanley economists said the weakening in sales lowered their estimate for third-quarter economic growth to 6.5% -- the same as last quarter -- from 6.9%. Still, the foundation for consumer spending growth remains strong. Employers are raising wages as they try to fill a record 10.1 million job openings. Households are sitting on at least $2.5 trillion in excess savings accumulated during the pandemic.

Investors are watching the 10-year treasury as it helps provide an insight on investor sentiment. Employment and inflation data has been suggesting an end to the economic recession. Economic growth and data have pushed the markets to watch for the Fed to signal a shift away from maximum accommodation. Many experts predict a tapering announcement in November/December, reduced bond purchases in spring 2023 and rate hikes in 2022's third quarter.

The main debate of those in the market is inflation. The Fed considers the higher inflation to be "transitory," related to supply-chain imbalances caused by the faster-than-expected reopening of the economy. If the Fed is wrong and inflation is here to stay, then we would expect that interest rates will rise at a faster pace than projected which would have a negative impact on the equity market. Core CPI increased month over month at a rate of 0.3% versus the 0.4% expectation, the index only slightly decelerated to 4.3% in July from 4.5% in June. Headline CPI, at 5.4%, was a 30-year high.

For the remainder of 2021 inflation and covid will be the major drivers of the U.S. market. If inflation is determined not to be transitory then the Fed will look to raise rates at a faster pace and reduce quantitative easing. The most pressing issue that will drive performance in the third and fourth quarter will be the Delta variant. If it continues to cause higher cases and hospitalizations this may lead to further restrictions and a reduction in consumer spending. Based on the data, we expect the second half of the year to show strong signs of economic growth but with the Fed potentially signaling the end of its bond buying program and the delta variant, that the U.S. market returns will be flat or a slight decrease.

In our previous report we noted that RF is working on adding four additional investment strategies for plan members. The current allocation will be our Growth Strategy. We are still awaiting regulatory approval to add Conservative, Income, Balanced, and Aggressive Strategies. The above asset managers will be used for each strategy, but the allocations will be adjusted accordingly. For example, the Conservative Strategy's target allocation will be 80% fixed income, 15% US equities, and 5% non-US equities, while the Aggressive Strategy's target allocation will be 60% US equities and 40% non-US equities. We now anticipate that these strategies will be available during the fourth quarter of 2021.

David Slatter, CFA