



FREDDIE LAIT
LATITUDE INVESTMENT MANAGEMENT

Liquidity Risk Rising

Dear Investors,

Over the past few weeks we have seen notable headlines in the UK and Europe regarding funds which trade daily, yet invest in illiquid instruments.

Illiquidity is a risk which has been mispriced over the past ten years as quantitative easing programs have flooded financial systems with cash, and regulators have allowed funds to run liquidity mismatches in their portfolio.

Whether this is about to change is hard to predict, however, we believe liquidity risk will likely be re-priced substantially higher, especially if markets do enter a more turbulent period.

Illiquidity comes in many forms, in particular small-cap stocks, over-the-counter derivatives, and many issues of corporate credit. Moreover, infrastructure, property and more esoteric investments like catastrophe bonds and ILS could all see outflows if not held through suitable long-term capital vehicles.

At Latitude we only invest in very liquid instruments. Our stocks are generally larger than £10bn in market cap and our non-equities include government bonds, FX and gold.

The current daily liquidity of the Latitude Horizon Fund is at least 97%.

The issue with illiquidity premiums rising will affect larger groups more starkly than boutiques, another reason in our opinion to invest in the latter!

If you have any questions please do get in touch with any member of the team here at Latitude.

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