SHINING A LIGHT ON……
PREMIER DEFENSIVE GROWTH FUND

At a glance

Over the past ten plus years bonds have enjoyed a bull market; this is likely coming to an end. Investors can no longer expect the same level of returns and potentially there could be greater volatility. Volatility is what investors hate - this is the swing in the value of their investments, either in a positive or negative direction and for bond investors it's definitely not what they are after!

In 2008 Standard Life launched a Global Absolute Return Strategy Fund which effectively was a hedged portfolio of blended assets giving bond plus type returns with the same or lower levels of volatility. The aim was to drive down the volatility but deliver returns at around 70 to 80% of equities and target a return of cash plus 5% after charges. This strategy has been successful and the fund now has over £30 billion worth of assets.

The key to the fund is that it is not a bond fund but invests across a range of different asset classes (equities, bonds, currency etc). We use the fund in the fixed interest part of our portfolios as a main holding and we have since been looking for a second fund which we can blend into the fixed interest portfolios to work alongside this.

We recently met Paul Smith who manages the Premier Defensive Growth Fund as well as their Corporate Bond Fund and Money Market Fund. His expertise is in managing low risk funds and the approach he discussed made this an interesting option for those funds seeking above cash returns but minimal volatility.

In this update we will share some of the thoughts from the manager.

Who are the team behind the fund?

Paul Smith has managed the fund since its launch in December 2010 and has managed low risk mandates for over 10 years winning a number of awards. He has a proven track record of outperformance and is well respected.

There are four reports and the analysts working on the fund know it inside out so should anything happen they can take over the mandate very quickly. The fund is also highly liquid if for any reason the fund had to be sold down.

Effectively investors are buying into Paul Smith and although the team appears small he believes this is large enough to manage this type of fund. One other take home was that he is incentivised on positive returns so the fund will always aim to deliver this over a 12 month period.

Fund highlights?

The fund has returned around 4% p.a. since launch with volatility of around 2%. To compare the volatility on the Standard Life Fund is around 5 to 6% with a return over the same period of 4.59% p.a.

The table below shows the three year volatility ratio vs Standard Life and the FTSE All Share Index. Source is from Morningstar and is from 1 May 2011 to 30 April 2014.

It is a multi-asset fund which means it will have exposure to all asset classes including equities but the key difference with the fund is the predictability of returns.

The process is to identify opportunities and then look for low risk ways to get exposure to those. For example he has taken a position in Asia Small Cap Equities. Two individuals are employed to identify these opportunities and around 80% of what they look at will not deliver the low risk exposure they need. It means sometimes they can’t access opportunities, one of the recent ones was Gold Mining Stocks and there were no low risk means of accessing this.

Another example was an investment in Global Utilities where they are paid both on the downside and upside.

The trades and themes are therefore really important as are the predictability of returns. This is done by using fixed life contracts (most are 1 ½ years or less) and therefore they can model the predictability of returns and the second is fixed entitlement.

We touched on this especially around covenants – for example bonds can look attractive but more and more they have call options which means the issuer can call the bond at par subject to certain events. These types of contracts he will avoid.

Where the fund will appeal is on the predictability of returns and visibility of assets. The manager has delivered consistent returns which are not far behind GARS with considerable less volatility. Unlike GARS there is no target return and he views this as an absolute return fund over a 12 month period rather than a rolling three month period.

In conclusion this could be a good blend with the Standard Life GARS Fund or a fund on its own. It has delivered above cash returns with low volatility. We were also impressed both by the manager and process and the style could appeal to those just deciding to move out of cash type investments.

Fund performance

The table below shows performance since launch in December 2010 against the Standard Life Global Absolute Return Fund.

	2010	**2011**	**2012**	**2013**	**2014**	**Since Launch**
Premier Defensive Growth Fund	0.81%	0.52%	6.92%	4.57%	0.74%	14.14%
Standard Life Global Absolute Return Strategy Fund	-0.02%	2.19%	7.02%	6.28%	0.05%	16.27%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

Conclusion

The key difference is that the fund targets a positive return over a 12 month period with minimum volatility. This means that where some funds have wild swings from month to month this should have a study upward curve. Investors should be aware that the fund can deliver negative returns.

The source of information in this note has been provided by Premier and is correct as at May 2014. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.