

## SHINING A LIGHT ON..... SLI GLOBAL EQUITY UNCONSTRAINED FUND

### At a glance

For new investors choosing the right sector or country can be daunting. Often they are drawn to the best performers, and those being advertised. This strategy could work but the reverse is also true with investors being disappointed because they haven't fully understood the investment strategy.

We have reviewed several Global Growth and Income Funds. Some have a heavy bias to the US, some are more globally diversified and some like Baillie Gifford Global Discovery and Scottish Mortgage are more suited to higher risk investors.

We recently met the manager of the SLI Global Equity Unconstrained Fund. The name is slightly misleading as it tends to imply this fund is more volatile to generate greater returns. In reality the volatility of the fund sits at 13.38% which is in the middle of the more adventurously managed global funds and the more cautious funds, and therefore this fund should not be seen as a highly volatile global fund. It is fundamentally a stock picker's fund and although macro has a part to play it is about choosing globally sustainable companies.

The fund manager explained that this is a high conviction strategy with currently 48 holdings and the top twenty holdings making up 58% of the fund. Unlike some global funds the top holdings only carry around 2 to 3% weightings so no one weighting dominates the fund. This helps ensure that one stock doesn't dominate the portfolio. and volatility of the fund sits at 13.38% which is in the middle of the more adventurously managed global funds and the more cautious funds.

Geographically the manager explained that the consequence of the current weighting is more to do with where the good companies are rather than a preference to a particular area. Currently the weighting is 44% towards the US, 10% UK, Europe 15%, Asia 15% and Japan 6%. The balance is spread across other areas.

Performance since the manager took over in 2010 has shown an outperformance of the index. In 2011 and 2014 to date the fund was slightly behind the index. In line with its volatility rating this fund doesn't display great swings in performance but steady consistent performance.

In this update Mikhail covers some of his global views and provides some of his stock selections.

### Who are the team behind the fund?

The fund is managed by Mikhail Zverev who is also Head of Global Equities.

Mikhail Zverev was born in St Petersburg in the Russian Federation in 1976 and graduated from the Petersburg State Technical University with a BSc in physics, and he graduated from the London School of Economics with a MSc in accounting and finance. Mikhail started his career in 1998 at Trigon Capital as an analyst in investment banking. He joined Schroder Salomon Smith Barney in 2001 where he was an analyst within mergers and acquisitions. Mikhail joined First State Investments in 2002 where he was a senior analyst within UK equities and in 2007 he joined Standard Life Investments.

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He has a good reputation and has demonstrated an above average performance record against his peers. As with all funds managed by SLI the wider team and the input from that team ensure this is not just about one person.

### **Fund highlights?**

This is a stock pickers but Mikhail explained that understanding the economy helps identify the opportunities.

Europe for example is a mixed bag – Spain has taken on board the reforms needed and is now attracting new business investment into the economy at the expense of the likes of Belgium. Italy may open up opportunities as the new government push forward with reforms and Germany remains a difficult market to call.

In China the challenge is switching the economy to consumer based as this is not something the government can control. However, there are companies which can do well in this environment. One of these companies is VipShop which is equivalent to TKMaxx selling discount brands.

He remains positive on Japan and explained about two opportunities where he sees opportunities. Otsuka Corp focuses on the IT sector and in particular SMEs, as SMEs feel more confident this company will benefit. Similar to another holding this is not driven by exports but by general business confidence. Another example is based on retirement villages for Japanese retirees, with a growing elderly population and a sense of affluence these villages are seeing a real benefit and again is not driven by the export market.

In the US he remains positive and sees plenty of opportunities from the successful monetisation of the transition of internet usage to mobile devices (Google and Facebook) to growing sophistication and industrialisation of US shale gas exploration and production (Halliburton).

In the discussion it was clear that the fund is about the stocks and choosing the best ideas to drive growth. Although the macro picture doesn't necessarily drive the selection it does play a part as we can see in Japan and the US.

80% of the time is spent on stocks with over 3000 client meetings a year. The manager will take risk but there is no undue risk.

Our feeling was that this is a well-managed global fund which has delivered strong performance. The volatility is not as high as some of the adventurous global funds but equally it doesn't appear to have the spike in performance that is common with these funds.

There is nothing that makes this stand out and therefore investors need to decide whether they are comfortable with the style which is pure stock picking and if they are then compare the performance and volatility against other global funds in the sector.

In summary a well-managed global fund which has outperformed the sector. It is globally diversified but with a focus on the stocks rather than the overall macro picture.

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## Fund performance

Performance vs DB X-Trackers FTSE All World Ex UK is shown below:

	2009	2010	2011	2012	2013	2014
<b>SLI Global Equity Unconstrained Fund</b>	35.65%	23.58%	-9.49%	14.64%	24.99%	6.54%
<b>DB X-Trackers FTSE All World Ex UK</b>	22.37%	16.83%	-8.33%	9.745%	20.98%	6.84%

The manager took over on the 1 July 2010 and has returned 74.76% to the end of September 2014 compared to 54.31% on the tracker fund.

*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

In the global sector this fund doesn't necessarily stand out but the process is sound, and the management team strong. It has delivered good performance and sits well between the more adventurously and cautiously managed global funds with a focus on stocks rather than being country specific.

*The source of information in this note has been provided by SLI and is correct as at October 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.*