

SHINING A LIGHT ON..... SLI GARS FUND

Update....

Not everyone likes this fund – there are reasons for this. Firstly many funds have a clear see through strategy and are easy to understand (this is complex) and secondly the size of the fund. In previous updates we have covered these areas.

Just as a summary the fund does use a wide range of strategies with a three year time horizon with the aim to reduce volatility (similar to fixed interest bond investments) and deliver positive returns over a rolling three year time frame. To date it has exceeded its 5% p.a. target but past performance is no guarantee to the future, and although it has a target return this is not guaranteed.

On the size of the fund, the fund was always designed to be a £40 billion plus fund, and therefore where it invests reflects this. At the moment they do not seem concerned by its size and it doesn't appear to be having an impact on performance but it is something to watch.

In this update we covered the opportunity set, positives to the portfolio (and negatives) and some of the themes going forward.

The three main opportunity sets are:

1. Market return – selective equity, credit and real-estate exposures
2. Directional – interest rates (short US duration), currencies (Indian Rupee vs Euro) and volatility
3. Relative value – geography (Japanese vs Korean Equity), Sector (Global Miners vs Swiss Equity) and size (large cap tech equity vs small cap US equity)

We started by looking at the positives and negatives for the fund in Q4. One negative play was Short US Duration where they feel the current 10 year rate of 2.5% is currently mismatched in the market and this should correct over time, equally Short UK Real Yields is a play on a mismatch in yields. Global Miners vs Swiss Equity also was a negative contributor as the trade went against them but with the move in January this has started to reverse.

Positives to the fund included Australian Short Term Interest Rates, Long US Dollar vs Canadian Dollar and Long US Dollar vs Euro.

Most trades have a three year time horizon to reflect the rolling returns but some will be closed early if they play out sooner than expected or are deliberate short term trades. Others will have a long time horizon.

As an example the Long US Dollar vs Canadian Dollar has been closed after 6 weeks and Global REIT after 18 months as return targets were reached.

Going into 2015 some of the trades include German vs French Equity and Brazilian Government Bonds. The equity trade reflects difficulties in France to push through structural reforms and with Brazil increased yields in the aftermath of the election.

Another equity position is Japanese equity vs Korean equity where a weaker yen will make Japanese companies more competitive.

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What the team were demonstrating was that the fund is not exposed to one single outcome and it is spread across a number of different trades. The point is that these will play out at different points in time and enable the team to continue to deliver positive returns over the longer term.

In conclusion it is true that the fund is complex, but ultimately investing across different strategies means that the fund is not exposed to one outcome and different outcomes will deliver at different points in time. In theory this should enable it to deliver the positive returns it aims to deliver but this cannot be guaranteed. Investors need to be aware of this before investing.

Fund performance

Performance over the last five years is shown below:

	2010	2011	2012	2013	2014
SLI GARS Fund	10.64%	2.88%	7.74%	7.00%	5.69%

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.

The source of information in this note has been provided by SLI and is correct as at January 2015. 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.