

SHINING A LIGHT ON..... SLI STRATEGIC BOND FUND

Update....

There are a wide range of Strategic Bond Funds in the market. With so much uncertainty in the bond market, making decisions about which sector to hold becomes more complex. Does an investor opt for high yield, gilts etc. 2014 surprised many with gilts being one of the strongest sectors.

In the review last year we highlighted that compared to M&G Optimal Income this fund had some key differences. This is a pure bond fund, unlike the M&G Optimal Income Fund this doesn't hold any equities. In the update this time we met the deputy manager, Mark Munro, and this highlighted another key difference. The fund is not about one person but a team which gets a feed from all aspects of the company. And finally the manager has a focus on keeping volatility low.

In this update we touched on some of the key strategic decisions within the fund.

The four main areas of focus within the fund currently are:

1. They have reduced exposure to core high yield as these have become expensive and they have taken profits
2. They have reduced government holdings as yields started to fall
3. They have reallocated assets towards high yield financials (something highlighted in the last review)
4. They have increased exposure to investment grade through selective choices including emerging markets

The managers in the last update highlighted in the last review that they were finding value in emerging market debt and the fund continues to be supportive of this. It will be using some of the assets in the fund to invest in a new fund Standard Life is launching which is an Emerging Market Debt Unconstrained Fund.

The fund is currently positioned with the main holdings in High Yield Non Financials (30%), Financial High Yield (17%) and Government Bonds (10%).

What is clear from the discussion with Mark is that we are in very different times with negative yields and therefore managers need flexibility to move around to get the best returns from the fixed income space. Going forward it is only a guess but it is likely that the smaller more nimble funds will perform better because they have the ability to exploit opportunities and drive returns.

We saw in the last update that M&G Optimal Income had significantly outperformed the SLI Fund over the long term but this has started to narrow. The question is that now this is a much bigger can this continue in a very different environment, and if it can't can the SLI Fund start to outperform? Of course the SLI Fund is not the only Strategic Bond Fund and investors may wish to consider other options as well.

LWM Consultants Ltd

Fund performance

Performance over the last five years is shown below:

	2010	2011	2012	2013	2014	2015*
SLI Strategic Bond Fund	6.75%	4.85%	16.21%	6.24%	4.38%	2.22%
M&G Optimal Income Fund	9.29%	6.59%	13.75%	7.79%	5.26%	1.25%

***1 January to 28 February 2015**

	1 year	3 Years	5 Years	Since launch (5/2/2009)
SLI Strategic Bond Fund	4.63%	25.22%	45.80%	68.23%
M&G Optimal Income Fund	4.98%	24.16%	49.56%	99.61%

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 March 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.