SHINING A LIGHT ON……
SLI GLOBAL ABSOLUTE RETURN STRATEGIES (GARS) FUND

Update….

The fund has had a strong first quarter, up 4.45%. The update was to understand what has driven the strong returns and any changes the fund managers have made to the strategy.

In an environment where volatility seems to play a big part in every day investing the ability to dampen it, is increasing. Cash is one route but the return is minimal, fixed interest bonds are another but there remains uncertainty as to future returns within this market. Property is another option but there are issues around liquidity. The SLI GARS Fund, and there are other funds offering the same type of strategy, aims to fill that gap.

The aim of the fund is to deliver a return of cash plus 5% gross over a rolling five year period. Importantly the aim is to achieve this with between a third and half of equity volatility. Since launch in 2008 the fund has returned 7.85% p.a. with 5.3% volatility. Of course the past is not an indication the future and investments can fall as well as rise.

Unlike many strategies this fund adopts a multi asset strategy. What this means is that it invests in between 25 and 35 different investment ideas. Each of these are focused on a longer time frame, normally 3 years, they look across different assets and regions and they focus on how the different strategies interact with each other.

There are three main strategies – market return where about 35 to 40% of the fund is managed by equity and credit managers to drive returns, directional which looks at interest rates and currency and relative value which is playing two markets to get performance.

The fund is not designed to follow the market. So in the 35 quarters since its launch, the market has been down 9 quarters. GARS has been down in 3 of those quarters but it has also been down in 3 of the up markets.

The real driver for performance in the first quarter was currency and this delivered 3.3% to the overall performance in the quarter. Some of the trades included Long US Dollar vs Canadian Dollar, Long US Dollar vs Euro and Long Indian Rupee vs Euro. The managers have started to reduce the currency exposure so there is not a reliance on currency moving forward. As movements in currency markets can go up or down, this might reflect a slight drop in performance during April.

Some of the negative contributors include US Relative Interest Rate, US Short Forward Interest Rates, US Equity Technology vs US Small Cap Equity, UK Real Yield and Euro Banks vs Euro Equity. Of these only the UK Real Yield has been removed, the strategy was introduced at the start of 2014 but has not behaved as expected and actually cost the portfolio. As they cannot see any reversal they have removed the strategy.

The managers have also removed a strategy on Global Oil Majors which they set up in 2013. This has delivered 3 to 4% to the returns but not as much as they hoped, and they remain unconvinced by the value in the market. To replace this they have taken out a strategy on Global Equity Miners, they had in part some of this strategy via Global Equity Miners Long vs Swiss Equity Short which has now gone.

The strategy is therefore being constantly tested and if they don't work or they have played out they will replace them. Some of the main strategies at the moment include:

1. Multi-speed global growth:
    a. German vs French equities
    b. Brazilian Government Bonds
2. Central bank policy
    a. US Short Forward Interest Rates
    b. Long US Dollar vs Japanese Yen
    c. European vs US and Japanese Interest Rates
    d. European Banks vs European Equities
3. Growth potential and uncertainty
    a. European Equities
    b. US Relative Interest Rates
4. Resources and demand
    a. Long US Dollar vs Canadian Dollar
    b. Global Mines Equity

Finally we covered capacity issues for the fund. The managers explained that the fund is constantly being tested for liquidity issues and also testing against the investable universe. The latest results show there is still headroom for the fund to grow but they remain focused on protecting existing investors. If they feel the fund is at a size where performance is compromised they will take steps to stop inflows.

Fund performance

Performance over the last five years is shown below:

	2010	**2011**	**2012**	**2013**	**2014**	**2015**
SLI GARS Fund	10.64%	2.88%	7.74%	7.00%	5.69%	4.45%
IA OE Money Market	0.32%	0.03%	0.49%	0.23%	0.29%	0.07%

	1 Year	3 Years	5 Years	Since launch
SLI GARS Fund	10.00%	6.46% p.a.	6.75% p.a.	7.85% p.a.
IA OE Money Market	0.29%	0.31% p.a.	0.27% p.a.	0.61% p.a.

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 May 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.