SHINING A LIGHT ON……
IP GLOBAL TARGETED RETURNS FUND

Update….

In previous reviews we have highlighted that this fund aims to deliver positive returns over a rolling three-year period of 3 month libor plus 5% gross with half the volatility of equities. Where volatility is part of a normalised investment world this fund can either act as an alternative to bonds or sit alongside them as part of a balanced portfolio to provide some downside protection for investors.

The returns are not guaranteed but since launch (9 September 2013) to 20 April 2016 the fund has returned 6.22% p.a. The fund doesn't have a three-year track record but over 12 months the volatility was 2.27% compared to the FTSE All World Index which was 11.73% (over 12 months to 31 March the fund was up 0.76% and the FTSE All World Index down 0.49%).

This highlights how the fund operates and why it might work well in a portfolio of assets. However, in 2015 the fund returned 1.66% and year to date (to 20 April 2016) the fund is up 1.88%. This shows that much of the higher returns where achieved in the early days of the fund and the question is whether these types of funds are struggling in this environment. We have seen this with the Standard Life Global Absolute Return Strategy Fund and a separate review of this is now available.

The update we had was with Clive Emery who is a Product Director on the team. He started by highlighting that the last twelve had three 10% negative periods and it is within this environment that the fund navigates and can look to "protect" investors. Currently there are 29 ideas and no single one strategy dominates the fund. The aim is that each one delivers a small incremental return that added together will deliver the target return set for the fund.

To achieve this effectively 50% of the ideas need to be delivering positive returns and over the last quarter this was at 63% but the average is around 70%. The only negative quarter was Q2 2015 where the positive ideas only contributed 35% to the returns.

Unsurprisingly where the fund suffered in the first quarter of 2016 was in equity positions, there were four specific positions – Global, Japanese, German and UK Equities. There was also an Interest Rate position which also dropped into the bottom five negative contributors. Where the fund did well in Q1 was in Interest Rates (Sweden vs Europe and Selective EM Debt), Currency (Japanese Yen vs Korean Won and Norwegian Krone vs UK Pound) and Equity (US Staples vs US Discretionary).

Clive added that normally they would expect to add two new positons in a quarter and remove two. This quarter saw 4 new ideas, 4 changes in strategy and one removed. Some of the changes include:

1. Japanese Yen vs US Dollar – this reflects a view that that the Yen will be more volatile than the Dollar
2. Russian Rubble vs Canadian Dollar – this reflects that the Rubble has fallen nearly 50% and the worst seems to be over with oil and sanctions and there are signs that the economy is turning around whereas Canadian is entering a period of structural change
3. Australian Dollar vs US Dollar – this is a trade they have removed and has benefited the fund for the last two years but they feel has played out

The general thesis of the fund remains:

1. Low but positive global economic growth
2. Uncertain market impacts from changing liquidity
3. Low inflation continues globally
4. Select opportunities in risk assets
5. Higher levels of market volatility to persist

We touched briefly on BREXIT and Clive explained that the fund is not specifically exposed. He added that it is important that the fund doesn't expose itself to one idea, event or theme. Currently there are 29 ideas spread across 16 regions and 6 asset classes.

In summary since launch the fund has delivered above its target return with lower volatility when compared to global equities. The performance in 2015 was slightly positive but in an environment where markets suffered significant falls in June, August and September this reflects the nature of the fund to protect on the downside and provide incremental positive returns over the long term. Year to date the fund has been able to achieve this even within a difficult environment.

Fund performance

Performance since launch (9 September 2013) to 20 April 2016 vs the SLI Global Absolute Returns Strategy and FTSE All World Index:

	2013	**2014**	**2015**	**2016**
IP Global Targeted Returns Fund	4.08%	8.60%	1.66%	1.88%
SLI Global Absolute Ret Strat Fund	3.87%	5.69%	2.99%	-3.16%
FTSE All World Index	4.35%	11.30%	4.04%	5.68%

Performance over 12 months and since launch:

	1 year	**Since Launch**
IP Global Targeted Returns Fund	0.69%	6.22% p.a.
SLI Global Absolute Ret Strat Fund	-4.42%	3.53% p.a.
FTSE All World Index	-0.11%	9.80% 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 Invesco (IP) and is correct as at April 2016. 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.