

SHINING A LIGHT ON THE.....
Standard Life Global Absolute Return Strategies Fund

AT A GLANCE

| Investment Objective | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| The fund aims to provide positive investment returns in all market conditions over the medium to long term. The fund is actively managed, with a wide investment remit to target a level of return over rolling three-year periods equivalent to cash plus 5% a year, gross of fees. It exploits market inefficiencies through active allocation to a diverse range of market positions. The fund uses a combination of traditional assets (such as equities and bonds) and investment strategies based on advanced derivative techniques. The fund can take long and short positions in markets, securities and groups of securities through derivative contracts. The fund may use derivatives for the purpose of efficient portfolio management and to meet its investment objective. | |

| | |
|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Inception Date | 28 January 2008 |
| Fund Factsheet Link | http://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F000001VFQ |

| Management | |
|---------------------|-------------------|
| Manager Name | Start Date |
| Multi Asset Team | 28 January 2008 |

| Volatility Measurements | |
|-----------------------------------|-------|
| 3-Yr Std Dev (volatility) | 4.42% |
| 3-Yr Mean Return (average) | 1.80% |

FUND PERFORMANCE

Performance from 1 January 2013 to 31 January 2017.

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|-------------------------------------------------------------|-------|-------|-------|--------|--------|
| Standard Life Global Absolute Return Strategies Fund | 7.00% | 5.69% | 2.99% | -2.51% | -0.25% |

Performance over 1 year, 3 years, 5 years and since launch:

| | 1 year | 3 years (p.a.) | 5 years (p.a.) | Since launch (p.a.) |
|-------------------------------------------------------------|--------|----------------|----------------|---------------------|
| Standard Life Global Absolute Return Strategies Fund | -0.67% | 1.80% | 3.45% | 5.70% |

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.

UPDATE....

The aim of this fund is to provide positive returns of cash plus 5% over a rolling three-year period. The fund successfully delivered this even with short sharp corrections in 2008 and 2011. However, since 2015 it has gone through a prolonged spell of underperformance which has reflected in the 3 and 5 year returns, which are significantly below the target return.

Up to the end of November 2016 the fund was down over 4% for the year and it was only a sharp correction in December which improved its figures. 2017 hasn't started well for the fund which is slightly down for January.

It is worth taking a step back and looking at how the fund approaches its investments. The fund looks to have a broad range of strategies with a time horizon of three years. The idea is that not all of these will deliver at the same time but over time the strategies together will create the positive target return at the same time as maintaining low volatility.

Although the team is focused on 2016 as the year where the troubles started, with quarters 1 and 2 down it actually goes back to 2015. However, many of the woes for last year were focused on US strategies which didn't respond as expected; although ironically with the election of Trump there was a big bounce in December.

They have closed some strategies which includes US Dollar vs Sterling, US Dollar vs Korean Won, UK Investment Grade Credit, US Large vs US Small Cap and US Tech vs US Smaller Cap. They have added in Japanese Yen vs Korean Won, UK vs French Interest Rates and Emerging Markets vs Brazilian Equities.

Some of the bigger themes they are focused on include:

1. Global Growth – they believe there is positive momentum especially in the US and Europe. Although the UK has shown stronger than expected data they expect the UK to slow
2. Economic Policy – they believe there will be a greater divergence of economic policies with the US raising rates whereas economic policy will remain loose in areas like the Eurozone and Japan
3. Markets – they believe stronger earnings growth will favour equities and rising inflation will impact bonds. They also believe there are opportunities to exploit differences between different markets

The biggest risk is geo-politics; they believe the policies in the US are growth friendly but there are uncertainties with elections in Europe and the BREXIT negotiations.

The big question is whether the fund can reverse nearly two years of under-performance. Their thesis is that some of the ideas didn't work last year particularly with the US, but that this will reverse in 2017. The thought is that not only will the correction pick up on the losses from 2016 but also deliver the target return of 5%. This would mean returns of about 8% this year. Certainly, they have made some adjustments to the strategy, however they have started the year in negative territory so have a head wind to work from.

We have no crystal ball for the future however this is one of the most established funds in this sector and it has been through periods of underperformance and come through these; albeit these have been much shorter. If the fund does correct this year, then the 3 and 5 year figures could be back on

LWM Consultants Ltd

target. We discussed whether the size of the fund contributed to the underperformance and they explained that they would love to blame the performance on this but the fund was always designed to be big. Therefore, size didn't play a part in underperformance and hence why they believe it will reverse.

We think the fund will correct at some point, we don't know what the potential returns will be when this happens but it is possible that we could see the fund move back to where it should be over the next 12 months. What it has highlighted is that there are other funds with longer term track records and it is worth considering blending these with this strategy to protect in periods of underperformance.

In conclusion, this is one of the most established funds in this sector but is going through a prolonged period of underperformance. They believe this will correct this year, and think returns could be around 8% (although they cannot guarantee this). We don't like to predict the future but we believe that they have the team and resources to ensure the strategy moves back in line with its target returns, but investors considering these strategies should perhaps consider blending with other funds.

The source of information in this note has been provided by Standard Life and is correct as at February 2017. 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. We would also recommend that you receive advice before following up on any decision.