

LWM Consultants

*“An investment in knowledge
always pays the best interest”*

Fund Manager Meeting Notes – GLG Total Return Fund



When we look at how we allocate assets across the portfolios convention dictates that we should hold a percentage of assets in fixed interest investments.

The problem we have with this is that we believe returns from this asset class will be squeezed and this view has been supported by a recent Barclays report and the J.P.Morgan Guide to Markets.

We are reviewing our allocation to fixed interest - we continue to believe in the long term story around emerging market bonds and research shows that when interest rates rise this asset class should continue to deliver positive returns. However other bond classes may not.

The main foundation of “fixed interest” allocation for our portfolios is the Standard Life Global Absolute Return Strategy Fund. This is not a fixed interest investment but has similar characteristics in terms of volatility. The difference is that it has a multi asset approach; effectively it invests across different asset classes to deliver less volatile returns (which are similar to bond investments).

As a final part of the jigsaw we include a strategic bond fund which looks to invest across the bond market (and may include an allocation to equities). So effectively we hand over the decision as to where to invest in bonds to the fund manager.

Going forward we want to review whether we continue with a strategic bond fund, and if we do whether we keep with what we have or look to another fund. Or do

we move away from strategic bonds and look for a multi asset fund to complement the Standard Life Fund.

One of the funds we are looking to review is the GLG Total Return Fund. The term total return is slightly misleading in that like the Standard Life Fund it is looking to deliver positive returns but it will also have negative periods.

This update is a review of the fund and some of the thoughts from the fund manager.

Overview of the fund

James Ind is the lead fund manager. He joined GLG in July 2013 however he has run multi-asset strategies for a number years through Russell Investments and Merrill Lynch.

The fund has been launched into a busy space, with other similar launches from the likes of Invesco Perpetual. The launch date was July 2013 so currently the fund has no track record although we can get information on James’ track record.

There are similarities in the fund to Standard Life – it has a large team feeding into the different strategies that it uses to deliver returns. Similar to Standard Life it is targeting a Libor plus 5% return over a rolling three year period.

Although this is a new fund I think where it differs from the likes of Invesco is that it applies the absolute return strategies developed by GLG over the last decade. They believe they have a distinct investment strategy which focuses on global economic trends, the main instruments they use are around interest rates and

currencies but they will use indirect equities (futures, derivatives and ETFS).

The fund looks to focus on between 15 to 20 investment themes to drive returns; due to its short lifespan it currently uses 10 non correlated investment themes. This means the returns are not interlinked between the different themes.

Each conviction holding is tested against risk versus return and then the size of the holding is based on the best conviction against risk. So something may offer the potential for a great return but the risk might be too high. So it is about getting the balance right. One trade in place is on interest rates where the market is pricing in rate increases sooner than Mark Carney has indicated. They feel that interest rates will remain lower for longer than the market thinks.

There are also short term positions to exploit opportunities. The markets are not pricing in the risk of a shutdown in the US economy. It is unlikely they will default as they can use special measures to deal with the problem but the longer it drags on the bigger the impact on economic growth and the potential to fall back into recession. So effectively the manager will look to exploit what they see as a price mismatch over the short term.

This fund is about Macro Forecasts and using different levers to deliver those returns. Similar to Standard Life it is trying to achieve equity type returns but with bond like volatility, this is set around 7%.

We recently met Premier Asset Management who manages a 'fund of funds' multi asset fund. I liked what they offered but my concern is that this is a small team. The strength and depth of the team should not be underestimated as can be seen at Standard Life. GLG have a similar team. They have a core strategy team of six individuals with James making the final decision. Around this there are another eight individuals feeding into the process.

You also have the whole Man Group and GLG and this makes the whole proposition very strong. If you consider Invesco all you have is part of the Standard Life team, this is not a bad thing but there is no evidence that they

have depth and breadth within the company to support this type of strategy.

Although the GLG fund is new the concept comes from a long established strategy developed by the group over a number of years and this combined with the team is what makes the fund stand out.

J.P.Morgan in their recent Guide to Markets indicated that **when** interest rates rise many bonds will fall and some significantly. Certain pockets of fixed interest markets will deliver positive returns however we have felt for some time there needs to be a re-think as to what can be held within the fixed interest asset allocation.

Multi-asset strategies are not fixed interest investments but in terms of volatility they tend to be similar. The challenge for us is whether we stick to what we have which a mix of multi asset, strategic bond and emerging debt or we introduce another multi asset fund instead of using strategic bond funds.

Conclusion

We added the Standard Life fund when it was launched in 2008 and it has been part of the portfolios since 2009. We feel that fixed interest allocation can include multi asset strategies.

Clearly the GLG strategy is good and we have questions of the fund manager around his background, how the strategy could blend with Standard Life and how the team work. Once we have this we can then start to see how this might work within the portfolios.

The source of information in this note has been provided by GLG and is correct as at October 2013. 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 as rise.