

SHINING A LIGHT ON..... PREMIER CONSERVATIVE GROWTH FUND

At a glance

Over the past ten plus years bonds have enjoyed a tremendous bull market; this is likely coming to an end. In essence investors can no longer expect the same level of returns and potentially there could be greater volatility. Volatility is what investors hate - significant swings in the value of their investments, either in a positive or negative direction.

In 2008 Standard Life launched a Global Absolute Return Strategy Fund with the aim of driving down the volatility to bond type levels but deliver returns at around 70 to 80% of equities. The target return was cash plus 5% after charges. This strategy has been successful and the fund now has over £30 billion worth of assets.

The key to the fund is that it invests across a range of different asset classes (equities, bonds, currency etc) to drive returns. We use the fund in the fixed interest part of our portfolios as a main underpin and have been looking for alternatives which we can blend into the fixed interest portfolios to work alongside this.

The Premier Conservative Growth Fund was launched in 2010. Where it differs from the Standard Life Fund and the GLG Fund which we have reviewed is that it is not looking to make macro calls. So it is not based around themes but more about pairing different assets together to smooth returns.

It will invest in a very carefully selected blend of equities, bonds, alternative assets and funds to create a portfolio that is designed to be lower risk. Many of the investments in the Fund are typically uncorrelated with equity markets, which means that the Fund is not generally reliant on rising stock markets to produce positive returns.

It is effectively a fund of funds which may make it easier for an investor to understand than the Standard Life and GLG Funds which use more complex instruments and assets. For this reason it may blend well with either or both.

A concern would be the size of the team which is relatively small and this was a point discussed with the managers. They believe because they are not making decisions around the macro picture (i.e. the idea of themes) and investing purely on pairing assets together this should not be a concern for us.

Who are the team behind the fund?

There are four members in the team and three co-managers. David Hambridge is head of Multi Asset Funds and he is the contact I have met. He has been with Premier since 1987 and set up the strategy in 1995. This experience is important when you overlay with my concerns and meeting the manager helped demonstrate his knowledge and commitment to the strategy. Over a long time frame his performance against his peer group is mixed but over 1, 3 and 5 years it is strong.

Simon Evans and David Thornton are the two other co-managers and joined the team in 2006.

The story behind the investment

Portfolio construction emphasises the need to have bonds as part of the portfolio primarily because they are seen as low risk and drive down volatility. Bond funds are moving away from a bull territory where returns were easier to achieve to potentially bear territory.

We are starting to see more of these alternative bond type funds which aim to respond to rising interest rates and the potential negative impact this could have on bonds. For some of these the managers are keen to emphasise that they can control the volatility and still drive returns of 1% to 2% p.a. With inflation around 2% this means effectively this will deliver flat returns.

This means investment managers need to be clever to provide an element of “protection” to portfolios similar to bonds but deliver higher returns. Different strategies are now coming into the market and with the success of Standard Life; there are a number of “me to” strategies which we want to avoid unless they do it differently or better, I see no reason to just add a copycat fund for the sake of it.

In essence this investment is looking to be a bond replacement strategy however it will not appeal to all investors and cannot really be acknowledged as a bond fund.

Fund highlights?

The fund targets a return of cash plus 3% which is lower than both the Standard Life and GLG Funds. In 2013 it achieved returns of 5.2% for the whole year with volatility below 5%. To compare Gilt volatility is over 5% and UK Equities nearing 15%.

Speaking to the team the fund has reduced its cash weighting from 12.5% to 6.5%. They have been able to deploy this cash into new investment ideas with appealing valuations. As a result this has helped with diversification in the fund.

Alternative Assets saw a big increase in holdings up 3.2%. They added John Laing Infrastructure to the portfolio as well as Foresight Solar Fund. They also added a specialist property vehicle, Tritax Big Box REIT.

The fund does hold bonds and they recently added the TwentyFour Dynamic Bond.

In summary perhaps the best aspect of this fund is the clarity. Investors can easily identify the underlying holdings and research these if they wish. This gives comfort that they are investing in a vehicle which they are more likely to feel they understand.

LWM Consultants Ltd

Fund performance

The table below shows performance since launch in 2010.

	2010 (launch 1/7/10 – 31/12/10)	2011	2012	2013	2014	Since Launch
Premier Conservative Growth Fund	2.26%	0.02%	7.73%	5.20%	0.03%	4.53% p.a.
Standard Life Global Absolute Return Fund	-0.89%	2.88%	7.74%	7.00%	0.34%	5.07% 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.

Conclusion

This fund does have a long track record and has demonstrated its ability to deliver positive returns every year since launch. The returns are not dissimilar to the Standard Life Global Absolute Return Strategy Fund but with a less complex and a more understandable strategy. It may therefore appeal to investors for this reason. It is certainly a fund we should watch as a potential blend with Standard Life and / or GLG.

The source of information in this note has been provided by Premier and is correct as at January 2014. 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.