SHINING A LIGHT ON……
SLI GLOBAL ABSOLUTE RETURN STRATEGIES FUND

Update….

The SLI Global Absolute Return Strategies Fund is one of the most respected target return funds in the market with a track record going back to 2006 (although retail investors could not invest until 2008). During that time, it has delivered an annualised return of 7.2% p.a. (to the end of March 2016) with volatility of 5.3%.

More recently the team has come under pressure due to poor performance of the fund. Over twelve months to 31 March 2016 the fund was down 4.62% and this has led investors and journalists to question the strategy. It is worth adding that this happened before in 2008 and 2011 and on both occasions the fund was able to recover and deliver on its target return.

The target return is really important because recent press articles have incorrectly stated the aim of the fund. The fund aims to deliver cash plus 5% (gross) over a rolling three-year period with half the volatility of equities. It doesn't aim to be positive at all points in the cycle and can have negative returns in the short term. As it stands "poor" performance over the last twelve months means the fund has missed the three-year target with annualised returns of 2.78%, significantly below the target.

The start of 2016 has been tricky with the fund down 3.16%. However, there are signs that things might be changing. Over three months the fund is down 1.41% but over 1 month the fund is up 0.26% and up in April. This doesn't reflect the big bounce we have seen in equity markets but it is potentially very significant.

One other important point to highlight is the volatility, over the last twelve months the volatility on the FTSE All World Index was 11.73% whereas the SLI Fund was 4.51%. In a period where we saw significant equity falls in June, August, September and January it shows how it can "protect" (and continues to do so) investors against sharp market volatility.

We should highlight that 2015 delivered positive returns of near 3% but Q1 2016 has hurt performance. We spent time talking to the team to understand what if anything has gone wrong and when/if the fund performance will correct. During 2015 the fund had "exposure" to equities (both directly and indirectly) and was caught by the market correction over fears of a Greek exit and hard landing in China; but even with these sharp falls the fund navigated through the year to deliver positive returns.

Looking back on Q1 the team felt that the balance of risk on the fund was not right. Seeing positive growth in the US and globally the fund was positioned with a growth tilt. Although the fund doesn't have large exposure to direct equities because of the pro-growth view it will have a larger bias to equity type instruments. (Equity exposure is actually as low as it has been in history, however they have other "risk on" strategies i.e. US Short Duration is a fixed interest trade that benefits from strength in the US economy and rates being tightened.)

Going into January a number of factors contributed to the fears of a global recession. Any switch in sentiment of this magnitude was going to hurt the fund. The fund also suffered with a weakness in the dollar with positons against the Korean Won, Singapore Dollar and Euro. Effectively across the different strategies there were more negatives than positives.

Although the team have made some tweaks to the fund to provide more balance, fundamentally they believe in the strategies and ideas they have in place. We are starting to see the impact in positive returns; the fund is not set for a sudden correction but small incremental growth which should in time deliver the target return over three years.

Touching briefly on some of the changes, we have highlighted some examples below:

European banks vs insurers – they believed that banks were near the end of their capitalisation cycle, this isn't the case and therefore they have lost conviction with the strategy and removed this

US dollar – although the weakness in the US dollar has hurt the fund, in the long term they still believe in the strategy and have increased weightings to the Singapore Dollar and Korean Won strategies

Indian Rupee – the team have reduced risk to the Euro and Sterling by changing this strategy to vs the Swiss Franc. (The trades were Long Indian Rupee v Short Euro, and a Long Sterling v short Swiss Franc, they removed the long sterling in Jan as they didn't want to stand in the way of EU referendum and potential weakness)

They added that with all strategies they are not trying to time the market, so in the short term they can hurt performance if they are too early but everything is about having a 2 to 3-year time horizon. An example of this is US short duration which they added in 2015, and has delivered negatively to the performance. However, with the longer view the strategy will remain part of the strategy to enable those positive returns to come through (unless there is a fundamental change in which case they will either remove the position or adapt it).

We touched briefly on BREXIT and they are already doing scenario testing as to what would happen to the fund if the outcome was to leave. There is a spectrum of different outcomes but they have taken out sterling and reduced exposure to UK equities to protect against any potential downside caused by a vote to leave.

Finally, the team added that they feel the fund is positioned to deliver positive returns moving forward but this will be a slow recovery and investors shouldn't expect a sudden bounce. Where some strategies have been negative for the fund they believe that there are now clear opportunities, for example with US dollar exposure.

In summary although the fund has had a tricky 12 months it showed in 2015 its ability to deliver positive returns in a very difficult market. The fund wasn't prepared for what happened at the start of the year and this hurt performance but it has also enabled the team to add to existing positions and tweak it to make it a more balanced portfolio. It is very early days but we are starting to see positive numbers coming through and this seems to reflect small incremental increases that the team have suggested will happen.

As a final point although there have been members of the team leave to set up rival strategies over the last 12 months the team has remained stable with only one significant person leaving. This individual has returned to the US rather than setting up a similar strategy, and his duties taken on by other members of the team which are by one of the largest in this particular investment area.

Fund performance

Performance since launch (9 September 2013) to 31 March vs the SLI Global Absolute Returns Strategy and FTSE All World Index:

	2011	2012	2013	2014	2015	2016
SLI Global Absolute Ret Strat Fund	2.88%	7.74%	7.00%	5.69%	2.99%	-3.27%
FTSE All World Index	-6.57%	12.00%	21.03%	11.30%	4.04%	2.95%

Performance over 12 months, 3 years, 5 years and since launch:

	12 months		**3 Years**		**5 years**		**Since Launch**
	Total Return	Volatility	Total Return	Volatility	Total Return	Volatility	Total Return
SLI Global Absolute Ret Strat Fund	-4.62%	4.51%	8.35%	4.09%	24.71%	4.48%	6.23% p.a.
FTSE All World Index	-0.49%	11.73%	26.58%	9.65%	47.96%	10.56%	8.14% 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 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.