

**SHINING A LIGHT ON THE.....  
First State Diversified Growth Fund**

**AT A GLANCE**

<b>Investment Objective</b>	
The Fund aims to protect against UK inflation and provide growth by achieving a positive return of 4% in excess of the UK Retail Prices Index over a rolling 5-year period. The Fund will adopt a total return approach and invest in a broad range of traditional and alternative asset classes globally which may include, but are not limited to, inflation linked bonds, developed and emerging market equities, developed and emerging market debt, and exchange traded funds.	

<b>Inception Date</b>	23 <sup>rd</sup> June 2015
<b>Fund Factsheet Link</b>	<a href="http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=F00000VHJA">http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=F00000VHJA</a>

<b>Management</b>	
<b>Manager Name</b>	<b>Start Date</b>
Andrew Harman	23 <sup>rd</sup> June 2015

<b>Investment Style Details</b>	
<b>Equity Style</b>	
<b>Market Capitalisation</b>	<b>% of Equity</b>
Giant	74.90%
Large	21.76%
Medium	3.30%
Small	0.04%
Micro	0.00%

<b>Top 10 Holdings</b>		
<b>Total number of holdings</b>	723	
<b>Assets in Top 10 Holdings</b>	-	
<b>Name</b>	<b>Sector</b>	<b>% of Assets</b>
Us 5yr Note Mar 18 29-Mar-2018	-	-
Euro-Btp (Italy Govt) Mar 18 08-Mar-2018	-	-
POSCOAust 10yr Bond Mar 18 15-Mar-2018	-	-
Irs 09/08/2022 C/P Citibank Global Ma	-	-
Irs 11/12/2027 C/P Jp Morgan	-	-
Aust 3yr Bond Mar 18 15-Mar-2018	-	-
Irs 13/12/2022 C/P Jp Morgan	-	-
iShares JP Morgan \$ EM Bond ETF USD Dist	-	-
Irs 24/10/2026 C/P Citibank	-	-
Euro-Bund Mar 18 08-Mar-2018	-	-

<b>Volatility Measurements</b>	
<b>3-Yr Std Dev (volatility)</b>	-
<b>3-Yr Mean Return (average)</b>	-

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## FUND PERFORMANCE

Performance from 23<sup>rd</sup> June 2015 to 30<sup>th</sup> April 2018:

	2015	2016	2017	2018
<b>First State Diversified Growth Fund</b>	-4.30%	14.82%	7.08%	0.32%
<b>Vanguard Global Bond Index</b>	1.55%	3.51%	2.00%	-0.93%

Performance over 12 months and since launch:

	1 year	Since launch
<b>First State Diversified Growth Fund</b>	2.68%	5.99% p.a.
<b>Vanguard Global Bond Index</b>	0.18%	2.14% 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.*

## UPDATE....

This fund falls into the growing group of target return funds; it was launched in 2015 and will pass its three-year track record in June. The team is based globally in Singapore, Sydney and London and have managed similar strategies for 20 years with assets under management now exceeding \$20 billion. The fund itself has less than £100 million invested.

One of the early questions I had was whether the holy grail of investing existed (i.e. positive returns and low volatility). Andrew explained that you cannot control volatility and target a return. It is one or the other. He also believes that returns should be targeted over a 5-year period and anything less is too short. There will be periods where the market returns are not there, and this will reduce potential returns. Having the ability to pull levers to achieve returns is important. As an example, volatility can be as high as 12% but averages around 6%.

The risk to the strategy is not achieving the target return. This is done through asset allocation to achieve the target over a rolling five-year period and minimising the potential drawdown over a 12-month period.

Andrew went on to explain that you don't have to take "market risk" (seen as equities) to achieve returns and equities have been one of the lowest drivers of returns; assets like government bonds, FX and investment signals have been some of the main drivers.

We talked about a 2008 type event and I asked how this might impact the fund. They have back tested the strategy and the fund would have been down about 10%. But he added that markets evolve and there are more investment instruments out in the market place which means they can adapt in different ways should a similar event occur.

In terms of interest rates rising this is a positive for the fund because higher rates on cash makes it easier to achieve its target. The fund is used in different ways but fundamentally it is about capital preservation and growing this over time. Some see it as an inflation protector when they don't like

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bonds or cash, some see it as a default pension fund, some see it as a blend in a portfolio. There is no one reason why people select the strategy.

In terms of investment strategy, they look at the global economic on a six-monthly basis and will adjust depending on views at that time. Daily they are looking at markets and adjusting to reflect, as an example Brexit was a binary outcome which they don't like. In that case they introduced strategies for both outcomes so that it would protect the portfolio whichever way the vote went. They did the same with the US and French elections.

In summary, it would be wrong to say that buying this would give an investor bond like characteristics in terms of volatility. The manager clearly feels you cannot offer low volatility as well as a target return as you need the flexibility to achieve those returns. Equally in looking to achieve those returns you don't need to take extreme risk as they have shown. The fund is like the Threadneedle Dynamic Real Return but one of the key differences is that this uses actual assets whereas Threadneedle use their own funds. By using physical assets, they believe they can liquidate 99% of the fund in one day. In terms of performance it has achieved on its stated aim, but it hasn't been in place for five years and this may deter some investors.

Certainly, for those looking for target return strategies this may be one to consider and could work well as a blend with other strategies.

*The source of information in this note has been provided by First State and is correct as at April 2018. 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.*