

**SHINING A LIGHT ON THE.....  
Investec Diversified Income Fund**

**AT A GLANCE**

<b>Investment Objective</b>	
The Fund aims to provide income with the opportunity for long-term capital growth. The Fund will invest in both fixed interest instruments and equities and in derivatives, the underlying assets of which are fixed interest instruments, and equities in order to benefit from risk reduction through diversification. Investment will be oriented towards fixed interest instruments and may include international as well as UK investments.	

<b>Inception Date</b>	18 <sup>th</sup> April 1994
<b>Fund Factsheet Link</b>	<a href="http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=F000001ZKE">http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=F000001ZKE</a>

<b>Management</b>	
<b>Manager Name</b>	<b>Start Date</b>
John Stopford	12 <sup>th</sup> July 2012
Jason Borbora (Assistant Portfolio Manager)	1 <sup>st</sup> February 2017

<b>Investment Style Details</b>	
<b>Equity Style</b>	
<b>Market Capitalisation</b>	<b>% of Equity</b>
Giant	50.50%
Large	21.05%
Medium	25.49%
Small	2.33%
Micro	0.62%

<b>Top 10 Holdings</b>		
<b>Total number of holdings</b>	48 equity holdings / 169 bond holdings	
<b>Assets in Top 10 Holdings</b>	26.85%	
<b>Name</b>	<b>Sector</b>	<b>% of Assets</b>
United States Treasury Notes 2.88%	-	6.62%
United States Treasury Bonds 3%	-	5.53%
Western Australian Treasury Corporati...	-	2.52%
Quebec (Province Of) 8.5%	-	2.47%
Ontario (Province Of) 7.6%	-	2.14%
Indonesia (Republic of) 7%	-	1.58%
New Zealand Local Government F Sr Uns...	-	1.55%
New Zealand Local Government F Local ...	-	1.52%
Province of British Columbia 4.7%	-	1.47%
Brazil (Federative Republic) 10%	-	1.46%

<b>Volatility Measurements</b>	
<b>3-Yr Std Dev (volatility)</b>	2.60%
<b>3-Yr Mean Return (average)</b>	4.28%

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## FUND PERFORMANCE

Performance from 1<sup>st</sup> January 2014 to 28<sup>th</sup> February 2019:

	2014	2015	2016	2017	2018	2019
<b>Investec Diversified Income Fund</b>	5.56%	2.20%	6.20%	4.33%	-0.19%	2.13%
<b>Vanguard Global Bond Index Fund</b>	7.97%	1.25%	3.51%	2.00%	-0.11%	1.00%

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

	1 year	3 years (pa)	5 years (pa)	Since launch
<b>Investec Diversified Income Fund</b>	1.71%	3.93%	3.96%	6.00% p.a.
<b>Vanguard Global Bond Index Fund</b>	1.94%	1.31%	2.68%	-

*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 offers a simple strategy; its aim is to be defensive. Primarily it looks to deliver an income of between 4-6% p.a. and do so with half the volatility of equities at any given point in time. The fund was taken on by John Stopford in 2012 and the main focus is on limiting downside risk. Where he sees the fund sitting is alongside property, corporate bonds, cash, absolute returns. It does a similar job to these.

2018 demonstrated the defensive nature of the fund. Only 10% of asset classes made money and this fund was effectively flat for the year. This is seen as a good result in a difficult market.

They consider how they view the world and then construct the portfolio around this. The bull market has been running for a decade, and there are signs this is heading to an end point. There will be a recession at some point, and the fund must be able to respond to this environment.

The focus for the team is on the target income not the index. If they can put together a well-diversified group of assets, then they believe they can achieve the target income. Most investors re-invest the income and see this as a means to compound returns over time.

In terms of being defensive the fund operates three parts of a circle – growth, defensive and uncorrelated. In 2017 the growth side part of the circle was wider, and this has shrunk back. This is because their main view is that the US is heading towards a recession. This will then spread to a global recession. A recession is bad for markets and so moving the fund to defensive is the best place to be.

We talked about what would happen if they were wrong in terms of a recession. They explained that the fund on average has captured about 42% of the upside and about 16% of the downside. If they are wrong on the recession, then the upside capture will be slightly less but not significantly. The fund

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does react to the market falling and although they have long term outlooks, they do react to short term events. In times of market stress, they can use strategies to reduce equity risk.

Although the fund has been around for many years the strategy itself was launched in 2012. In the market correction of 2013 (August – September) the fund was down just over 2% during that period. During the correction in 2016 it was down 2.31%. At the start of 2018 in the first correction the fund was down -0.53% during that period and then in October it was down at the lowest point -0.05%. This strategy hasn't been tested in a period of severe stress and that is something investors would need to consider.

Touching on volatility the target is half of equities. This means that there is not a hard-set figure. If volatility increases, then the fund volatility can increase and vice versa. This gives them flexibility in terms of how they invest.

In summary, we have met both members of the team. This will likely suit investors looking for a defensive return fund. The returns are primarily driven from the income with some capital growth. The fund has about 55% allocated to growth assets (equities, REITs etc), 38% to defensive assets and the balance in uncorrelated assets. The fund has captured 16.6% of the downside risk and in an uncertain environment this fund may act as a good blend with other assets. It is worth stressing this fund has not been tested in a difficult downturn, and therefore potential investors should be aware of this.

*The source of information in this note has been provided by Investec and is correct as at March 2019. 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.*