

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

AT A GLANCE

Investment Objective	
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.	

Inception Date	18 th April 1994
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=F000001ZKE

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

Investment Style Details	
Equity Style	
Market Capitalisation	% of Equity
Giant	51.99%
Large	31.11%
Medium	14.85%
Small	2.05%
Micro	0.00%

Top 10 Holdings		
Total number of holdings	53 equity holdings / 187 bond holdings	
Assets in Top 10 Holdings	21.94%	
Name	Sector	% of Assets
United States Treasury Bonds 3%	-	2.99%
United States Treasury Notes 2.88%	-	2.52%
Ontario (Province Of) 7.6%	-	2.51%
Quebec (Province Of) 8.5%	-	2.43%
Western Australian Treasury Corporati..	-	2.32%
Queensland Treasury Corporation 4.75%	-	2.20%
Republic of South Africa 8%	-	1.91%
United States Treasury Notes 2.88%	-	1.72%
Investec GSF Gbl Ttl Ret Crdt S Inc-2 \$	-	1.71%
New Zealand Local Government F Local	-	1.64%

Volatility Measurements	
3-Yr Std Dev (volatility)	2.61%
3-Yr Mean Return (average)	3.88%

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FUND PERFORMANCE

Performance from 1st January 2013 to 31st October 2018:

	2013	2014	2015	2016	2017	2018
Investec Diversified Income Fund	6.47%	5.56%	2.20%	6.20%	4.33%	0.41%
Vanguard Global Bond Index Fund	-0.13%	7.97%	1.25%	3.51%	2.00%	-1.50%

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

	1 year	3 years	5 years	Since launch
Investec Diversified Income Fund	1.26%	11.19%	19.64%	6.02% p.a.
Vanguard Global Bond Index Fund	-1.54%	3.67%	12.96%	-

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 and primarily it looks to deliver an income of between 4-6% p.a., and to deliver this with half the volatility of equities at any given point in time.

In terms of being defensive the manager explained that this fund will not do 20% in a good year, it is more than likely to hover around 5%. We talked about whether seeking high income assets introduces risk and Jason explained that this is not necessarily the case. For example, with emerging market bonds they have high yields but high volatility. By using hedging strategies, they can reduce the risk on these assets but the trade off is a reduce yield. The point being made is that they can use strategies to reduce the risk of any single holding.

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, which is obviously 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 40% of the upside and about 20% of the downside. If they are wrong, then the upside capture will be slightly but not significantly less. The fund 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. This helped them in October 2018, and again in 2016.

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

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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 periods 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.

The fund looks to deliver an income and there is some growth on asset values, but this is small. However, there is an accumulation share class which means the income is rolled back into the investment effectively acting as a growth element. In simple terms, if the income is 6% and the assets fall 6% then the return is flat. It therefore acts as an additional cushion as a defensive strategy.

In summary, what we like about this is its simple structure. This is not going to be exciting but if markets are likely to turn this may provide some downside protection. As we can see there is no guarantee that in extreme periods the fund will remain positive, and it can turn negative. The managers are not trying to be clever by using complex strategies. Ultimately, they are providing a defensive strategy and aiming to deliver on the target income of 4 to 6%. It is worth adding that the income can be rolled back into the investment and as long as the assets don't fall by more than the income then this should deliver a positive return. But nothing is guaranteed!

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