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David Sol
investment director,
Standard Life
Investments

Multi asset investing optimised for growth investors

In these days of low economic growth and even lower global interest rates, one of the biggest challenges facing investors of all types is how to generate a high enough level of capital appreciation to meet their goals.

Built on the success of its hugely popular Global Absolute Return Strategies Trust, better known as the GARS fund, Standard Life Investments has developed a new multi-asset fund that, like its predecessor, is designed with the objective to perform under many market conditions.

Importantly, in this challenging macroeconomic environment and amid historically expensive equity markets, the strategy seeks to reduce overall investment risks without unduly sacrificing the available potential returns.

Absolute return with a boost

Best understood as a more aggressive version of the GARS fund, the objective of the Standard Life Investments Global Focused Strategies (GFS) Trust, as its name suggests, is targeting to generate a level of return over rolling 3 year periods equivalent to cash plus 7.5% a year, gross of fees, with as little risk as possible by combining the firm's highest conviction ideas.

David Sol, one of the portfolio managers behind the fund and an investment director at Standard Life Investments says this means an expected volatility between 6% and 12% or between half and two-thirds the risk of global equities.

Like the GARS fund, GFS harnesses the substantial intellectual capital of the asset manager's global investment analysts, portfolio managers and chief investment officers to source investment ideas for consideration in the portfolio.

Sol has managed portfolios for Standard Life Investments since he joined the firm from long-short credit hedge fund Ravenscourt Capital Partners in 2010. Also managing the portfolio is Neil Richardson, a more than 20-year veteran of the funds management industry and a former head of equities at UK fund house Ignis. They are supported by fellow investment director Jennifer Catlow together with the other investment professionals in Standard Life Investments multi asset team and the global strategy team headed by Andrew Milligan.

The existing GARS fund, as many advisers will know, uses a mixture of strategies, including traditional equity and bond investing, directional strategies involving currency and interest rate pairs, and relative value strategies to generate its returns.

The GFS builds on this approach by optimising the relative value portion of the portfolio to target the required additional 2.5 percentage points in return, taking bigger bets on single stocks and employing short positions.

The team's underlying ideas, which must meet the risk and return objectives of the fund in their own right, are then combined in a way which allows each component idea to contribute to the overall return in a range of different outcomes without any one strategy dominating or without relying on any given risk factor.

To achieve the performance target, GFS combines Standard Life Investments' best ideas at both a macro and micro level. This means GFS can take advantage of the firm's macroeconomic insights in the same way that the firm's other absolute return portfolios do. Additionally, as a more focused portfolio, GFS can implement strategies at an individual security level within equities, fixed income, real estate and money markets.

"We try and diversify the portfolio by sticking to our investment philosophy," explains Sol. "The first principle is that we take a medium to long term investment view of two to five years."

The best way to express ideas

The portfolio managers are agnostic about the asset classes they are investing in, instead picking the most efficient way to express the individual underlying strategies whilst minimising exposure to idiosyncratic risks. This can be done by taking advantage of risk hedging tools such as derivatives. The fund is also free to make use of both long and short positions.

"We create true diversification by combining 30 different ideas or strategies in one portfolio. These can be in credit, in equities, foreign exchange, or in volatility," Sol says.



The quote

The whole idea of the multi-asset funds is to position them for a wide range of different market conditions.



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"What's important to understand is that we're looking at the portfolio not only in a central case but also in a wide range of different market conditions."

Risk management

Whilst idea generation is obviously important, the key to the success of the fund lies in having an obsessive focus on institutional grade risk management. Risk is monitored and controlled by a combination of organisational structures and processes. That starts with understanding exactly what risk the portfolio holds.

"Part of the exercise is measuring the risk, which we do through our so-called APT system. When we look at risk we don't use one simple metric but a range of tools, such as scenario analysis, to understand how the risk of the portfolio could change over time.

"The fund is set up with the objective to generate a positive return under a wide range of market conditions so we're not really putting our bets on one specific outcome but the whole idea of the multi-asset funds is to position them for a wide range of different market conditions."

GFS has a low correlation with assets such as equities and our other absolute return portfolios. It can therefore be a useful component for investors seeking to diversify their portfolios and enhance returns. Standard Life Investments suggests a minimum holding period of five years.

"A lot of investors in Australia use it as a kind of equity replacement. So for those clients looking for equity-like return with considerably less volatility, GFS is an appropriate solution," says Sol.

"The fund is different from a lot of other funds in a sense that it is combining macro investing with bottom-up micro-specific themes. This blend or fusion is relatively unique." **FS**

To find out more about Standard Life Investments, please visit australia.standardlifeinvestments.com

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