Managed Portfolio Tactical Change - v24

August 2016

The Portfolios are being rebalanced. As part of this process, there are changes to the fixed income and equity allocations. The change reflects a change in UK equity manager selection in the Managed models and fixed income manager selection in the Income models where we are also marginally increasing our equity weighting.

Change & Rationale

In the equity portion of the models we are selling out of the **Royal London UK All Share Tracker** and the **Woodford Equity Income fund**. In their place we will be adding the **Schroder Recovery fund**, and adding the **Lindsell Train UK fund** to the lower risk models and adding to the current Lindsell Train holding in the higher risk models. We will keep our allocation to UK equities as a whole unchanged, but we are starting to add complimentary style exposures in the equity portion of the models. In this instance, adding managers that complement the quality-value exposure that we get through the Rathbones Income fund – a fund that is currently under review.

The Schroder UK Recovery fund provides exposure to deep-value stocks, an investment style which has withstood the test of time by producing consistent outperformance in the UK and other markets globally. The co-managers of this strategy, Kevin Murphy and Nick Kirrage, invest with a contrarian mind-set by looking to buy shares in companies when they are out of favour and compellingly cheap. Their holdings will have what the managers believe are strong enough balance sheets to weather tough times and benefit from both a normalisation in earnings and an improvement in investor sentiment towards these companies.

Lindsell Train was established in 2000 by Michael Lindsell and Nick Train and specialises in the management of UK, Japanese and Global equity mandates for institutional clients. The business was founded on the shared investment philosophy that was developed while the founders worked together during the early 1990s and which underlies their business today. The bulk of their assets is invested in their UK equity strategy. Nick and Michael work closely together but each has a regional focus, on the UK and Japanese portfolio respectively, while they co-manage the global equity strategy.

This strategy is managed with a quality driven investment style that results in a low-turnover, concentrated portfolio of around 25 stocks, selected with no attention to the benchmark. Nick looks to take advantage of buying opportunities arising when the very best amongst durable and cash-generative franchises are under appreciated by the market, which on average is very rare. He focuses on identifying the strongest franchises within industries with demonstrable sustainable advantages and longevity, and with the ability to grow real cash flow over the next 20 years. These businesses typically benefit from a strong and enduring brand with extensive heritage. We expect their quality growth approach to provide steady absolute returns and protection in down markets.

Income Models - v5

In the fixed income portion of the portfolios, we are switching out of the **L&G Dynamic Bond fund** into the **TwentyFour Dynamic Bond fund**. TwentyFour are, in our opinion, the premier choice within this space and offer a better way to get broad, dynamic fixed income exposure. The team of eight follows an unconstrained approach, with a broad remit to access all asset classes within fixed income, and we would expect this to become a strategic holding in the Income models, with a current yield of circa 6%. A top-down, bottom-up process is followed, identifying both the sectors within their universe where mispricing is occurring (with views typically coming from their bottom-up knowledge) and conducting detailed bottom up credit analysis to identify the best securities to express their macro view. For example, the pan-European banking sector is currently seen as attractive on valuation grounds, and a number of UK banking credits feature in the top ten holdings. Twentyfour have an extensive and strict risk process in place, and are able to add value by constructing a concentrated portfolio with the experienced portfolio managers also implementing trades (an area where incremental, additional returns can be gained by experienced PMs rather junior traders).

In the Cautious Income Portfolio we are also making an allocation to the **Evenlode Income fund** to increase the equity portion of the model, bringing it more in line with our desired asset allocation. Evenlode is a small direct investment franchise within Wise Investments, which is predominantly a wealth management business. The parent company was established by Tony Yarrow in 1992 to manage investments for private individuals. They have a small team of investment professionals managing assets of approximately £275 million from their office in Oxfordshire. The Evenlode franchise was launched in October 2009 by the fund's co-managers; Hugh Yarrow and Ben Peters. The portfolio managers implement an all-cap, quality orientated investment approach. They combine a disciplined and repeatable process with detailed fundamental research and a long investment horizon, which results in a low-turnover and relatively concentrated portfolio of around 30 high quality businesses that offer attractive cash based valuations. The managers' strong preference is for asset-light companies with low reinvestment requirements, enabling the businesses to compound returns at a higher rate than the market average. Holdings typically exhibit a high and sustainable return on invested capital and strong free cash flow generation.