momentum

Managed Portfolio Tactical Change - v26

November 2016

The Managed Portfolios have been rebalanced. We made changes to the Property and UK Equity portion of the models, and we marginally reduced cash in the lower risk portfolios.

Change & Rationale

In Models 3-6 we have now fully sold out of the Standard Life UK Real Estate fund. This fund temporarily closed and stopped trading for liquidity reasons, following the UK's vote to leave the European Union. Now that the fund has re-opened, we have sold out of the holding – primarily for liquidity reasons. In this type of strategy there is an inherent mismatch between daily dealing liquidity and the bricks-and-mortar asset class that underlies the fund.

While trading was suspended, we held slightly elevated levels of cash and only targeted an allocation to property of 2.5% in the model - due to clients still holding 2.5% in the Standard Life fund on the side. This ensured that existing investors were not over-exposed to the real estate sector. As part of this rebalance (and in turn us selling out of the Standard Life UK Real Estate fund) we have reduced this cash target and allocated the proceeds towards the L&G Global Real Estate Dividend Index fund. This trade takes our allocation to Property in the model to the 5% level (now that there is no residual position in Standard Life).

The L&G Global Real Estate Dividend Index fund offers exposure to listed global real estate stocks, offering solid daily liquidity and is therefore more appropriate for a DFM type strategy. L&G is a large index provider in the UK market, and portfolio replication is sensible with a strong focus on reducing costs through phased trading to match index rebalancing. The manager aims to minimise turnover for smaller changes and limit transactions costs with cross trading. They aim to perform in line or slightly outperform the index.

A further change comes in the form of a direct switch out of Rathbone Income fund, and into the Evenlode Income fund. Evenlode is a 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. 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. In fact, Hugh Yarrow used to work on the Rathbone Income fund and the philosophies of the funds are similar; this switch therefore does not alter the investment-style mix of the portfolios, but we believe Evenlode to be the superior manager in this space. At Evenlode, the portfolio managers 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 lies with 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.