

Managed Portfolio Tactical Change - v23

July 2016

The Portfolios are in the process of being rebalanced. As part of this process, there are changes to the property, UK equity, alternatives and cash allocations within the portfolios. This change reflects a move away from open ended, daily dealing, property investments, as well as a change in allocation away from one of the alternatives managers in the portfolios.

Change & Rationale

Daily dealing direct property - Sell

The Managed Portfolios are allocated to one or two (depending on which portfolio) daily dealing, directly invested UK property vehicles. These vehicles invest in direct (bricks and mortar) exposure in the UK property market. As a result we would like to sell the two daily dealing directly invested property funds utilised in the Managed Portfolios (Standard Life's UK Real Estate Fund and L&G UK Property Fund). The L&G UK Property Fund has experienced two market value adjustments which sum to 15% of the Net Asset Value of the fund to reflect the prevailing winds in the UK property market.

Listed property - Buy

We believe that the allocation to property in the Managed Portfolios is better served at this time, through the closed end market and to that end, we have identified a passive strategy managed by L&G, namely the L&G Global Real Estate Dividend Index as our preferred holding. This invests in Global (Real Estate Investment Trusts) REITs and while their day to day volatility will be akin to the equity market (these are equity securities that invest in property) over the long run we anticipate that their price performance will in fact be akin to that of directly invested property. The apparent increase in volatility is, to our mind, a small price to pay for the additional liquidity and openness of pricing afforded by investing in listed securities over and above other alternatives.

UK equity tracker - Trim

To ensure that the addition of the global property securities holding outlined in section 2 above does not affect overall portfolio risk we have trimmed UK equity by a commensurate amount. The logical place to do this was by instigating a trim of the Royal London UK All Share Tracker. At this stage, this is not an outright sell, but rather a trim in the position to keep the allocation to listed securities unchanged in the portfolios.

City Financial Absolute Equity - Sell

The performance of this holding has been underwhelming since its inclusion in the portfolio and as a result we have decided to remove it from the portfolio. The proceeds from this sell will be immediately reinvested into First State Asia Pacific Leaders.

First State Asia Pacific Leaders - Add

Our valuation work identifies Asian equity as cheap on a forward looking basis: we are looking to increase our allocation to Emerging Markets to move closer to our long term strategic asset allocation on the higher risk rated funds and to take advantage of the attractive valuation in these markets.

We have decided to add to First State because they are a high calibre Asian manager in which we have high conviction. They have a consistent and proven quality/value approach but will make no compromise on quality for value. The strategy is managed by an experienced team with a deep knowledge of the Asian investment universe.

Cash - Buy

We have increased cash in the portfolios in anticipation of a period of heightened market volatility as a consequence of the uncertainty created by the Brexit vote in the UK. While we do not believe this vote to pose a long term systemic risk to the UK large capitalisation stock market (which derives approximately 75% of profits from overseas), we do expect an increase in volatility on the back of the political uncertainty in the UK and Europe. This position should dampen volatility somewhat and gives the portfolio manager additional cash which is a store of 'dry powder' that can be put to work timeously as and when market opportunities present themselves.

Standard Life UK Real Estate update

As you know the Standard Life UK Real Estate Fund has been suspended and affects portfolios 4, 5, 6, 7 & 8. Due to the suspension we have been working closely with the platforms to ensure active management can remain on the investment portfolios. The solution that the platforms have enabled is to remove the Standard Life UK Real Estate Fund from the portfolios or exclude the fund from the rebalance. This means that the clients assets will remain in the Standard Life UK Real Estate Fund until it reopens, however the remaining value of the portfolio will be rebalanced in the new Asset Allocation. This also allows the portfolios to be open for withdrawals and new investments.