

# smoothing the ride

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30 years  
1978-2008

**NEWTON**  
The Power of Ideas

**Philip Collins**, Investment Director of Newton's Private Investment Management division, explains the effectiveness of multi-asset investing for cautious investors.



Cautious investors are generally looking for a return superior to cash but are at least as concerned about losing money as they are about making money. The Cautious Managed sector has been growing of late, perhaps reflecting increased caution amongst investors, but also boosted by a wider range of fund strategies.

The standard approach used to be one of investing a certain amount in equities and a certain amount in cash and bonds. For most funds the weightings changed little regardless of market conditions, the broad investment thesis being that cash and bonds offer some protection when equities fall while equities would rise in better times. This has worked reasonably well at delivering returns above cash when equities rose and milder negative returns when equities fell. However, wider investment powers and a more sophisticated investor base have prompted a much wider range of options.

Some funds attempt to generate returns by forecasting the behaviour of assets and then investing or selling that asset prior to the predicted rise or fall. Others have introduced overlays to remove unwanted risks, for example selling an equity market index in a fund of selected stocks to

remove market risk but retain exposure to the preferred stocks. Each of these approaches is capable of producing very attractive returns but the manager-specific risk is high. This is not necessarily a bad thing – if you have a robust process of reviewing fund managers. However, individual fund managers change jobs periodically and fund management companies change their strategies from time to time.

## smoothing returns

It is possible to limit the fund manager risk to some extent through diversification. The brief of diversified funds is to remain diversified regardless of market conditions, hence the fund will always be exposed to assets that rise and those that fall.

For example, Newton Phoenix Multi-Asset Fund invests across a broad range of asset classes that have different return and volatility profiles, aiming for a return of 2% above cash over rolling three year periods. The Fund's portfolio is allocated approximately one third in cash and bonds, one third in equities and one third in so-called alternatives (including fund of hedge funds, commodities, private equity and property).

This diversified asset allocation strategy continues to drive the Fund's outperformance of those Cautious Managed funds that are still limited to more conventional equity and bond allocations. Over the last five years Newton Phoenix Multi-Asset Fund has delivered 7.2% per annum compared to only 5.6% from its average Cautious Managed peer\*.

As we said at the beginning, cautious investors are at least as interested in not losing money as they are in making money, so return figures alone cannot prove the effectiveness of the Fund. We also need to look at the volatility of that return. Since its inception in 2003 to the end of July 2008, Newton Phoenix Multi-Asset Fund delivered 8.4% per annum compared to 10.0% from the FTSE World Index but with half the volatility†, proving that investing in so many asset classes goes a long way to smoothing returns regardless of stock market fluctuations and making Newton Phoenix Multi-Asset Fund an ideal holding for cautious investors. ●

**The Newton Phoenix Multi-Asset Fund is available through Skandia's Selestia Investment Solutions investment platform and Royal Skandia fund ranges.**

\*Source: Lipper as at 31 July 2008. Fund performance calculated as total return including income net of UK tax and annual charges, but excluding initial charge. All figures are in GBP terms. The impact of the initial charge, which may be up to 4%, can be material on the performance of your investment. Performance figures including the initial charge are available upon request. Past performance is not a guide to future performance.

†Source: Lipper, 11 April 2003 – 31 July 2008. Fund performance calculated as total return including income net of UK tax and annual charges, but excluding initial charge. All figures are in GBP terms. Performance prior to 27 November 2006 relates to Newton Phoenix Fund, an authorised unit trust re-styled on 11 April 2003. Newton Phoenix Multi-Asset Fund (the Sub-Fund) was launched on 27 November 2006 when class A units of Newton Phoenix Fund were converted into the Sub-Fund.

The Royal Skandia Life fund will not mirror the performance of the underlying fund because of Royal Skandia fund charges, taxation adjustments (if appropriate) and the Skandia investment process.



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## Steve Waddington, Fund Manager, Insight Investment Multi-Asset Group, explains why diversification is key to achieving consistent positive returns.

Equities have traditionally been the engine which drives capital growth for the majority of investors. Over the long term, this asset class has been relatively successful in delivering capital growth in excess of cash – since 1899 equities have outperformed cash by approximately 4% per annum. However this has not been achieved in a smooth line. The turbulent movement of the global equity markets over the past year have reminded investors of the volatility that comes with equity investment; to achieve a risk premium, you need to put your clients' capital at risk, a daunting thought. However the good news is that equities are not the only option to beat cash. More recently we have seen property, commodities, and corporate bonds beat cash over market cycles.

During the 'tech wreck', investors who invested solely in equities lost up to 40% of their capital. On the other hand, investments in UK Government bonds, property, and commodities all delivered very strong returns during the melt-down in equities in the first two years of this decade. This discrepancy underlines the fact that different asset classes deliver varied returns due to the different drivers of their valuation. The fact that they are not completely correlated with each other means that the level of risk in a portfolio can be reduced without sacrificing expected return.

### spreading risk

An example of how spreading the risk across multiple asset classes can work can be seen within Insight's Diversified Target Return (DTR) Fund. Despite the recent market turmoil where, over 12 months to the end of June, UK equities have fallen 13%, global equities 9.5%, and listed property 26.7%, the Fund has generated positive returns, adding 2.2%\* and significantly outperforming the Cautious Managed sector, which lost 6.8% in total.

The flexible multi-asset structure of DTR means that it is positioned to take advantage of opportunities in any of its markets. Even if all four of the main asset classes were to remain stagnant in the coming 12 months, the Fund's ability to exploit isolated pricing anomalies without exposing itself to broader market movements gives it the opportunity to provide investors with consistent returns. On the other hand, the portfolio setup is such that the Fund has the opportunity to benefit from a rally in any of the asset classes in which it invests.

A flexible strategy which can capture investment opportunities without a specific bias to any particular region or asset class allows the targeting of consistent positive returns, regardless of where we are in a market cycle. ●

### Insight Diversified Target Return (DTR) Fund

- DTR Fund aims to generate positive returns on an annual basis, exhibiting volatility similar to that shown by bonds.
- DTR Fund has a diversified portfolio with flexibility to move between asset classes including fixed income, equities, commodities, currency and property.
- DTR Fund is monitored on a daily basis with the aim of maximising returns and controlling risk.
- The Fund is A-rated by Standard & Poor's and OBSR.
- In order to achieve the Fund objective the fund manager targets an annualised return of cash<sup>†</sup> (gross of tax) plus 4% over a full market cycle.

<sup>†</sup>Three-month LIBID.

The Insight Diversified Target Return (DTR) Fund is available through Skandia's Selestia Investment Solutions investment platform.

\*During this period, bonds rose 6.2% and commodities rose 42.7%. Source: Lipper, A REUTERS Company. Basis: total return mid to mid excluding the effect of initial charge. Past performance is not a guide to future performance.

[www.skandia.co.uk](http://www.skandia.co.uk)

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Skandia fund platform gives you access to MultiISA and MultiFUND provided by Skandia MultiFUNDS Limited and to products provided by Skandia Life Assurance Company Limited.

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