First State Diversified Growth

A flexibly-managed, outcome-focused, mixed-asset fund that aims to deliver a total return of 4% in excess of the UK Retail Price Index (gross of fees), over a rolling 5-year period.

OPINION

- This Recommended fund is managed by Andrew Harman and Simon Hinrichsen in London. They work closely with their colleagues in the well-resourced Multi-Asset Solutions team.
- The investment process is highly objective and is supported by comprehensive quantitative and qualitative inputs. They have an unswerving focus on delivery of the return objective.
- We believe that a robust asset allocation reference framework is a vital component of multi-asset propositions. This team's approach is one of the most comprehensive that we have reviewed.
- The approach has existed for over 10 years and has been deployed across a variety of mandates, proving its worth through different market cycles. The managers understand the importance of balancing the trade-off between upside potential and downside risk.

CHARACTERISTICS AND UTILITY

- There is great flexibility around the fund's asset allocation and risk exposures. The managers allocate dynamically to market beta and alpha opportunities, with reference to market conditions and prevailing valuations. They are not afraid to stand out from the crowd; with the return target their driving force, portfolio positioning can be very different from traditional managed funds.
- The return objective demands exposure to risk assets. This inevitably results in a degree of capital volatility through different market cycles. While the managers make use of capital protection strategies to mitigate downside risk, the fund is total return in nature and should not be confused with an absolute return strategy.
- The fund is best-suited to long-term investors looking to achieve a return above inflation through a dynamically-managed vehicle.

RISK COMMENTARY

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 5. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 5 means the fund's historic volatility is between 10% and 15%.

The fund does not yet have a 5-year track record upon which to base the SRRI score. The score of 5 is based upon the fund's maximum value-at-risk limit. Different share classes could have differing SRRI scores. Given the fund's flexible nature, its risk profile can vary.

Lower risk ⟷ Higher risk

Typically Lower Rewards — Typically Higher Rewards

1	2	3	4	**5**	6	7

KEY FUND FACTS

Inception Date:	*23 June 2015*
Manager(s) Since:	*Andrew Harman (Jun 15)*
Fund Size:	*£22m at 31 Dec 17*
Fund Domicile:	*United Kingdom*
Fund Benchmark:	*UK RPI*
IA Sector:	*Flexible Investment*
Share Class Type(s):	*Acc and Inc*
Ongoing Charge Figure:	*0.55% at 31 Dec 17**
Charges Levied Against:	*Income*
Yield:	*2.16% (historic) as at 31 Dec 17**
Dividend Distribution:	*30 Sep and 31 Mar*

Dividend Distribution Date(s)/Charges Levied Against relate to "Clean" Income Shares. * OCF & Yield for Class E GBP is capped at 0.55% and available until fund reaches £250m in size. Refer to First State Investments for further details.

DESCRIPTION

Formal Investment Objective (provided by the fund company)
The Fund aims to protect against UK inflation and provide growth by achieving a positive return (gross of fees and charges) of 4% in excess of the UK Retail Prices Index over a rolling 5 year period.

Investment Team
Andrew Harman is the lead portfolio manager for the fund and he is assisted by Simon Hinrichsen. Both have responsibility for asset allocation and risk exposures. They are part of the Multi-Asset Solutions team, which is headed by Epco van der Lende. The team operates from London, Singapore and Sydney.

Investment Philosophy
The fund is managed on the basis that ultimately, fundamentals matter and always assert themselves as the key driver of returns. However, in the shorter term, markets are inefficient, affording opportunities to enhance or protect returns through dynamic asset allocation.

Investment Process
The fund's asset allocation has two key components: a "Neutral Asset Allocation" (NAA), which establishes the broad top-down framework based on an assessment of economic fundamentals; and, a "Dynamic Asset Allocation" (DAA), which seeks to exploit short-term market inefficiencies. The guiding principle is to ensure the portfolio is always positioned in line with the medium-term macro-economic view.

The process itself has three main elements. The first element is to generate expected returns for all assets types that are relevant for this portfolio. This is a comprehensive task and makes use of a proprietary "Asset Return Model", which builds country and regional assumptions based upon inputs such as rates of GDP growth, inflation, earnings growth and pay-out ratios. Using raw data, they create datasets that reflect the economic environment that they think will prevail. The next step is to determine return levels and risk premia. Using various economic parameters, stochastic simulation models provide thousands of scenarios for future time paths. When viewed in the context of the current valuation of assets, they calculate ranges of potential returns for equity and bond markets from different countries and regions. This work is supplemented by their "Investment Signals". These are qualitative investment ideas that must be well-researched and are tested rigorously. Once approved by the team, signals may be selected to feature in the portfolio, but are always deployed in the context of market conditions and current portfolio positioning.

Portfolio Construction and Risk Controls
The most pertinent risk is the risk of failing to achieve the return target. This is assessed using their Weighted Risk Metric (WRM). Taking account of the fund's risk and return objectives, the WRM generates an optimal portfolio allocation, based upon output from the Asset Return Model. Using this information, in circumstances when they are less confident about the scope for the NAA to meet portfolio objectives, they incorporate a risk budget for their "Investment Signals". In these cases, they rely more heavily on the DAA to achieve their target returns. The implementation of all investment ideas is undertaken with an understanding of liquidity conditions and cost, as well as any counterparty risks. Equity exposure can be between 0% and 100%; duration can be between -6 years and + 6 years.