true potential investments

TRUE POTENTIAL PORTFOLIOS

THE SCIENCE OF ADVANCED INVESTING

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The True Potential Portfolios were launched in October 2015. They now have £2.9 billion invested across the 10 portfolios. We like to keep you up-to-date with the changes we make to the portfolios on a regular basis, with monthly factsheets also available for each portfolio.

The re-balancing process each month starts with a conference call with our fund manager partners discussing what has been happening in markets. Importantly, we discuss their tactical view for the next three months and how this fits with their long-term strategic vision. Our in-house Investment Management team analyses all of these views and assimilates them into a True Potential Investments consensus house view. This helps us keep you informed about future opportunities. The market intelligence that we have is what drives our investment decision taking; how we select the funds and in what proportions. The team may even decide not to rebalance a portfolio at all if they believe it is positioned correctly for the next month.

Our main objectives are to; Lower the average cost of ownership, manage portfolio volatility and maximise investor after cost risk-adjusted returns over the long-term.

KEY THEMES - JULY

Our manager engagement this month took aim at strongest conviction views and key opportunities going forward. As well as garnering the opinions of our managers we drill down into the portfolios looking at the individual portfolio characteristics. This helps us marry the two aspects together, creating a strategy suited to each of the True Potential Portfolios. The summary below captures the main highlights as well as an explanation of our actions.

For our calls with our manager partners, we have concentrated our questioning around the following topics: -

- Central bank policy and the potential for monetary policy tightening.
- Equities – how will they perform in a rising bond yield environment and how are valuations pricing, particularly within the tech sector.
- What could be the catalyst for a pick up in volatility.
- Property – how is this working in current market conditions.

Overall, in general, our managers are cautiously optimistic around market conditions, taking the view that while we may shortly come to the end of a loose monetary policy environment they do not see a catalyst for equity markets to derail. They are cognisant that valuations are pricing securities at high levels by historic standards, but take the view that a downward correction would be a buying opportunity with cash available and sitting on the side lines.

Below are some of the key themes we are seeing from our calls.

UK Interest Rates – none of our manager partners see interest rates rising this year within the UK. Although at the recent Monetary Policy Committee the voting was close at five votes to three in favour of keeping rates on hold, our managers feel that economic data is too mixed to allow for a rate hike with high levels of debt (both household and personal), weak house price data and wage growth below inflation levels. The recent fall in the inflation data from the UK has further reduced expectations for the need for a rate hike.

Central Bank Policy – Janet Yellen's recent comments that levels of interest rates in the US are starting to normalise resonate with our managers. They feel that as long as the Federal Reserve stay behind the curve, thus taking less risk with growth, then the tightening process shouldn't be problematic. Should economic data become softer within the US, then the Fed would need to potentially reconsider their approach and would likely become less hawkish on tightening. Markets, of late, have worried about financial tightening. However if we look back historically, positive real interest rates have actually been good for productivity growth and for real assets like equities.

Fixed Interest – this is an area that is becoming more appealing to some of our manager partners. Our managers are generally positioned short duration, so less sensitive to hikes in interest rates. However, some of our managers have revisited their investment into longer duration Government bonds which act as a form of portfolio insurance against deflationary impulses. While rising bond yields in the short term would be potentially negative, over the longer term higher yields are positive for bond holders looking to reinvest cash flows and reinvesting maturing bonds with low yield structures.

Property – our managers, in general, have taken a negative view on property. As we move towards a general global financial tightening, REITS (real estate investment trusts) have generally lagged the market. If bond yields rise the spread trade of property against bonds becomes less favourable and our managers feel that we are moving towards a softer period for property prices. Liquidity is a key metric for our managers and they are nervous that the property sector as a whole isn't liquid enough if there is a run on property as per last year after Brexit.

Technology Sector – our managers discussed the valuation levels of the technology sector right now and all agreed that valuations in this sector are pricing on some incredible expectations for future growth. In general, they feel that these stocks could see further upside from technology displacing labour intensity across the global economy. However, they also recognise that investment returns from technology stocks are being driven by momentum. One indicator being used to judge whether or not this will come to an abrupt end is the shape of the yield curve. If it became inverted (short rates higher than long rates) it would signal bad news for the sector (and equities in general).

Volatility – the market environment has been fairly benign and volatility levels have been low. Our managers are cognisant of this and feel that we could see volatility start to increase with the catalyst being a change in direction for central bank policy. Our managers do not foresee volatility rising to problematic levels.

Alternatives – becoming more in focus as managers look outside the traditional areas of equities and bonds as a way to deliver higher income and better risk adjusted returns compared with bonds that are now on extremely low yields.

CHANGES TO THE PORTFOLIOS

We have carried out a number of changes this month. They lie within our Cautious, Balanced, Growth, Cautious +, Growth +, Cautious Income and Balanced Income Portfolios.

Over the month, allocations have been increased to Allianz, Goldman Sachs, Close Brothers and UBS whilst SEI, Schroders and Columbia Threadneedle have been reduced.

Below is the rationale for the changes: -

Allianz – the allocation has been increased because of their ability to be very nimble, reacting quickly to changes within markets. They have taken risk levels down with the introduction of an absolute return strategy within our funds and their current low risk positioning also acts as a hedge within the Portfolios should there be any short term volatility.

Goldman Sachs – the allocation has been increased with Goldman's ability to source income from non-traditional areas; a factor in the increased allocation. Their fully currency-hedged positioning also helps guard against the risk of sterling starting to rise. We are also attracted by their ability to select securities on fundamental considerations and this is working strongly.

Close Brothers – the allocation has been increased. Their excellent stock picking ability is really shining through this year and their managed exposure to sterling is helping mitigate negative currency moves. As we progress through the market cycle and with most asset prices having risen, stock selection becomes a more important way of separating winners from future losers. Their fundamental and technical screening criteria alongside a stop loss discipline will assist them to navigate changing market conditions.

UBS – their core portfolio approach has driven consistent returns across the risk spectrum. This is fulfilled by injecting the same core portfolio construction into each fund but with a futures overlay being used to buy more risk assets and government bonds being deployed to dial down on risk. The benefit of having an active currency strategy fund within the mix has also produced good returns. The currency strategy is also a way of adding diversification.

SEI – action has been taken to reduce a significantly overweight position that has worked very well. SEI's bond component is higher duration compared to our other managers (albeit lower than bond index benchmarks) making their fixed income assets more sensitive to changes in interest rates relative to our other managers. SEI is also transitioning their manager style emphasis away from value because it has hindered their shorter term performance. They are shifting toward momentum and event driven which will take a little while to implement. Meantime, they continue to offer an extremely attractive and well diversified manager of managers proposition at an attractive cost.

Schroders – the True Potential Schroders Balanced Fund has been reduced within the models, helping to reduce overall cost. Their fund of funds approach is higher cost but they are aiming to deliver higher returns through the cycle by emphasising capital preservation at points when asset prices are elevated. We are currently finding that a number of our managers have been dialling back on risk which allows us to be a little less reliant on our funds managed by Schroders. This has the added benefit of us shedding some cost across our models.

Threadneedle – the position has been reduced, moving exposure from UK asset selection to security selection that is geographically more diverse at a time when UK economic data is softening.

Looking at the rest of the True Potential Portfolio range, allocations have been kept the same with the optimisation of factors continuing to be paramount within the Portfolios.

SUMMARY OF CHANGES

Portfolio	+ Portfolio	Income Portfolio
Cautious *decreased True Potential SEI (-1%), increased True Potential Allianz (+1%)*	Cautious + *decreased True Potential Schroders Balanced (-2%), increased True Potential Close Brothers Balanced (+1%), increased True Potential Allianz Balanced (+1%)*	Cautious Income *decreased True Potential Threadneedle Monthly Income (-2.5%), increased True Potential Goldman Sachs Inc Builder (+2.5%)*
Balanced *decreased True Potential Schroders (-1%), increased True Potential Close Brothers (+1%), decreased True Potential SEI (-1.5%), increased True Potential Goldman Sachs Inc Builder (+1.5%)*	-	Balanced Income *decreased True Potential Schroders Cautious Income (-1%), increased True Potential Close Cautious Income (+1%)*
Growth *decreased True Potential SEI (-1%), increased True Potential Close Brothers (+1%)*	Growth + *decreased True Potential SEI Aggressive (-2%), increased True Potential UBS Aggressive (+2%)*	-

If a Portfolio is not mentioned in the above table, then no change has been made.

DOWNLOAD FACTSHEETS

PERFORMANCE

(As of 18 July 2017)

	Month to Date	1 Year	Since Launch
Defensive	+0.51%	+4.28%	+11.68%
Cautious	+0.57%	+6.80%	+16.96%

Cautious +	+0.68%	+7.70%	+16.91%
Cautious Income	+0.21%	+9.20%	+19.62%
Balanced	+0.91%	+10.89%	+23.26%
Balanced +	+0.95%	+11.25%	+25.07%
Balanced Income	+0.25%	+10.48%	+22.62%
Growth	+1.26%	+13.82%	+30.01%
Growth +	+1.42%	+14.98%	+28.59%
Aggressive	+1.52%	+16.03%	+33.91%

Launched 01 October 2015

Portfolio	Yield
Cautious Income Portfolio	3.64%
Balanced Income Portfolio	3.79%

Your capital is at risk. Investments can fluctuate in value and you may not get back the amount you invest. Past performance is not a guide to future performance.