

# FP BENTLEY STERLING BALANCED FUND

31<sup>ST</sup> DECEMBER 2018

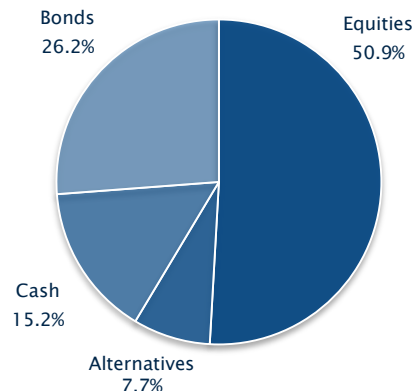


BENTLEY REID

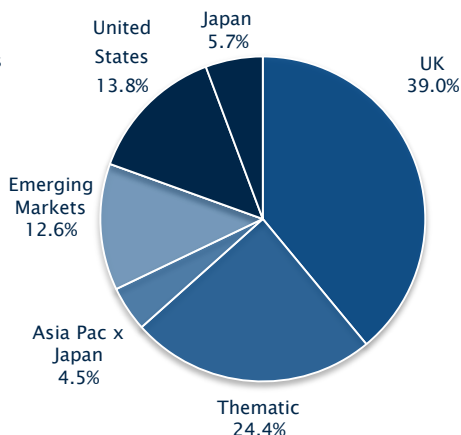
## INVESTMENT OBJECTIVE

The fund seeks to achieve an average annual return of CPI + 3% over any 5-year period, after all fees, with about half the risk of a pure equity exposure. Though the mandate favours equity investment, the investment manager has the latitude to actively allocate between different asset classes to protect values and reduce volatility. The fund aims to maximise returns in GBP terms.

### ASSET ALLOCATION



### EQUITY BREAKDOWN



## QUARTERLY INVESTMENT REPORT

Last quarter saw most headline stock markets fall by 15–20%, which took many indices in the US, Europe and Asia into bear market territory. Commodity and corporate bond prices finished the year under pressure too as mounting fears over slowing global growth and a further tightening of liquidity conditions spooked investors.

The UK stock market (as measured by the FTSE All-Share index) fell by 11% last quarter, but the fund price declined by just 1.8%, meaning we are protecting most of the prior gains. Turning to longer-term performance, at 0.5% p.a., the fund's 5-year average annual return ends 2018 below its target of inflation + 3%. Given the limited drawdown during the recent turbulence, this is mainly the result of us not participating more aggressively in the final stages of the bull market between mid-2016 and late 2017. In hindsight, we de-risked too early, but recent events are helping to validate our caution and over the past 10 years the fund has generated an average gain of 5% p.a. (gross of the Insurance Bond Wrapper cost of ~1.1% p.a.), which is approximately 3% ahead of UK CPI inflation.

*continued overleaf*

## PERFORMANCE (NET OF FEES) \*

CUMULATIVE	3 MONTHS	YTD	1 YEAR	3 YEAR (ANN.)	5 YEAR (ANN.)
Fund	-1.8%	-4.8%	-4.8%	-0.1%	0.5%
Inflation (UK CPI)**	n/a	n/a	2.3%	2.2%	1.5%

12 MONTHS TO	31 DEC 18	31 DEC 17	31 DEC 16	31 DEC 15	31 DEC 14
Fund	-4.8%	2.6%	2.1%	-0.8%	3.5%

\* the fund's return is calculated net of the Insurance Bond Wrapper cost

\*\*the CPI figure is the actual inflation figure and is not adjusted to show the fund's target return. The 3 and 5-yr figures are annualised averages.

EQUITIES	50.9%
<b>UK</b>	<b>19.9%</b>
Ardevora UK Equity	2.6%
City Financial Abs	2.6%
iShares Core FTSE 100 ETF	1.8%
Janus Henderson UK Abs Ret	3.9%
Jupiter UK Special Sits	2.4%
LF Woodford Income Focus	2.7%
S&W Enterprise	3.9%
<b>US</b>	<b>7.0%</b>
X-Trackers S&P Inverse	4.9%
iShares S&P 500 Financials	1.9%
<b>Japan</b>	<b>2.9%</b>
Vanguard FTSE Japan	2.9%
<b>Asia Pac ex Japan</b>	<b>2.3%</b>
Hermes Asia ex Japan	2.3%
<b>Emerging Markets</b>	<b>6.4%</b>
1167 High Income	2.1%
Schroder EMD Abs Ret £ Hdg	2.3%
Stewart Latin America	2.0%
<b>Thematic</b>	<b>12.4%</b>
Fundsmith Equity	2.8%
Guinness Global Equity Inc	1.8%
Jupiter Abs Ret £ Hedged	2.5%
Kennox Strategic Value	5.3%
<b>ALTERNATIVES</b>	<b>7.7%</b>
iShares Physical Gold	7.7%
<b>BONDS</b>	<b>26.2%</b>
EIB 1.875% 10/02/2025	5.2%
UK Index-Linked Gilt 2022	5.0%
UK Index-Linked Gilt 2024	5.3%
UK Index-Linked Gilt 2068	2.2%
Vanguard US Govt £ Hdg	8.5%
<b>CASH</b>	<b>15.2%</b>

The fund's risk profile was further reduced in the early stages of the quarter via a reduction in the UK and European equities holdings. These sales took the aggregate "long" equity exposure below 30%. The defensive positions have also performed better in recent months. The inverse S&P 500 tracker gained 19% in sterling terms and, as we are yet to see a capitulation sell-off that typically marks the end of a bear market, we retain a 5% weighting. The active long-short managers have also fared well with City Financial (which is short several US healthcare and financial names) rallying 13% last quarter and with US indices falling below key support levels we have initiated a 2.5% position in the Jupiter Global Absolute fund, which is profiting from a similar "short US" strategy.

The more traditional "risk off" holdings have added value in recent months. Gold rose by 11% in sterling terms as investors sought safe haven assets and began to price in the end of the Federal Reserve's rate hike cycle. These factors also boosted the US government bond market with Treasury yields falling (and prices rising) sharply across the curve. As a result, the fund's allocations to the Vanguard US Government Bond tracker and the EIB \$ 2025 supranational issue appreciated by 2% and 5%, respectively. It was also a good quarter for the UK index-linked bonds, which benefited from a rise in UK inflation expectations; the result of intensifying Brexit uncertainty and renewed sterling weakness.

The few "risk on" equity positions struggled last quarter with the UK mid-cap and US financials holdings amongst the main losers. The latter fell by 11% in sterling terms. With the US yield curve continuing to flatten (a trend that reduces the commercial banks' profit potential) and recession risks set to build over the coming months, further downside is likely. We plan to use any meaningful bounce to fully redeem the position.

Given the extensive falls in US and European equity markets it was no surprise to see many emerging markets (EM) also suffer, particularly in Asia with the Hermes Asia fund declining by 11%. However, we are encouraged by the recent outperformance of EM assets over their developed market counterparts as this is unusual during such extreme bouts of risk aversion. The Stewart Latin America fund posted a 4% gain last quarter, buoyed by a strong bounce in Brazilian stocks, and the Schroders EM debt fund appreciated by 1%. With signs of stability starting to unfold across multiple EM assets we may look to amplify the fund's exposure to these regions over the coming months.

We expect the equity and credit sell-off in developed markets will continue, but the fund's de-risking process is already complete. Looking ahead, our immediate priority is to ensure that the existing positions, and particularly the more defensive holdings, perform as we expect them to during any further market downside so that we can continue to protect capital. However, we are now turning our attention to how we will gradually "re-risk" the portfolio once market conditions permit. We will first need to see valuations de-rate to more supportive levels and liquidity conditions improve before we can feel comfortable buying back into equities and other risk assets, but some specific opportunities are already starting to look interesting. We would welcome further market weakness because it would encourage us to revert to a more bullish stance for the first time in several years.

## PORTFOLIO ACTIVITY

DECREASE EQUITY EXPOSURE (54.5% to 51.5%):

Sell Invesco European Equity (-2.0%)

Sell iShares MSCI EM (-3.0%)

Sell GVQ UK Focus (-2.5%)

Buy 1167 High Income (+2.0%)

Buy Jupiter Absolute Return £ Hedged (+2.5%)

## KEY FACTS

Price	£1.356	NISA	Yes
Fund Size	£156.0m	Launch Date	04/01/2005
Benchmark	UK CPI + 3%	Bloomberg Code	CFBSTBA LN
Initial Fee	0%	ISIN	GB00B046K924
Fees	1.5% AMC	ACD	Link Fund Solutions Limited
Ongoing Charge Figure	2.09%	Depository	BNY Mellon Trust & Depository (UK) Ltd
Minimum Investment	£5,000	Prices Published	<a href="http://www.bentleyreid.com">www.bentleyreid.com</a>

## CONTACTS

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## DISCLAIMER

REGULATORY INFORMATION: The FP S290 Bentley Sterling Balanced fund is a feeder fund of the LF Bentley GBP Balanced Fund, which is a sub fund of the LF Bentley Reid Investment Funds, an OEIC registered in the UK and Authorised and Regulated by the Financial Conduct Authority. Bentley Capital Ltd. (licensed by the SFC in Hong Kong) acts as investment advisor to the fund and, in turn, receives investment management services from Bentley Reid & Co (UK) Ltd. This document is for information purposes only and should not be considered as an offer to sell, or a solicitation of an offer to buy. Fund performance is shown net of fees and relates to historic returns, which should not be taken as a guide to future returns. The value of investments may fall as well as rise and fluctuations in currency exchange rates may affect their value and you may not get back the amount originally invested. The data source for this document is Bentley Reid & Co (UK) Ltd. unless otherwise stated. UK inflation data is based on the latest UK consumer price index (CPI) annual % change and is sourced from Bloomberg.