LGT Vestra – MPS Investment Committee Update – 22.04.2020

MPS Investment Committee update

22nd April 2020

The LGT Vestra Model Portfolio Service (MPS) Investment Committee met yesterday morning for its regular monthly meeting. Having met many times since the last formal meeting, it was an opportunity to take stock of the macro economic environment and review the overall construction of the portfolios. The committee agreed to make some changes to capitalise on widening spreads in credit markets by introducing a new fund and increase the overall quality of the equity component of the portfolio; being opportunistic in the credit markets, while adding ballast to our equity exposure. In line with the house view, the MPS Investment Committee agreed on the following changes:

Increasing credit exposure

Given the level of support provided to credit markets by central banks we currently have a positive stance to this asset class. Following the addition of the Muzinich Global Tactical Credit fund at the last rebalance, we have increased exposure to this sector by adding the Janus Henderson Strategic Bond to the lower risk portfolios. The fund has a flexible mandate, but mainly focuses on Investment Grade (IG), High Yield and Government bonds. Going in to the crisis the fund had an average credit rating of A, and have since allocated to "rock solid" IG names that had previously been inaccessible due to valuation.

Reducing UK exposure

We had been increasingly positive on UK equity as we believed a strong majority and progress on the EU trade agreement would be good for the UK market, and in particular domestic companies. However, the likelihood of the UK-EU trade negotiations stalling due to coronavirus has increased. Furthermore, the UK equity index has a high resources / energy composition, two parts of the market that we are not keen on right now. Overall, we find it harder to justify a positive stance and have moved the arrow back to neutral. Consequently, we have sold our exposure to the Vanguard All-Share tracker in the lower risk portfolios and our exposure to the L&G Mid-Cap index tracker in the higher risk portfolios, instead allocating to Morgan Stanley Global Brands. The Morgan Stanley Global Brand fund is heavily skewed towards Defensive sectors that can rely on predictable recurring revenues that are less disrupted by the state of the economy; the fund has a 34% allocation to consumer defensives compared to 9% for the benchmark and 21% healthcare, significantly above the benchmark weighting of 8%. Due to the investment style of the fund there is no allocation to Banks / Financials, Utility or Energy / Commodity companies.

Fund switch

Following the departure of the influential Portfolio Manager, Andrew Swan, from BlackRock we have decided to switch out of the BlackRock Asia Special Situations fund and into the Schroder Asian Total Return fund. The Schroder fund has a similar geographical exposure and has the added benefit of being able to utilise the short book to profit from stock dispersion and market weakness.

Income

In the Strategic Income portfolio we have taken action to support the yield given the uncertainty about the sustainability of dividends. In essence, we are reducing our equity exposure, instead allocating to quality corporate bonds (which should continue to deliver income and won't be impacted by the dividend cuts). With the remaining equity positions, we are increasing our exposure to equity funds that we believe have a better chance of paying out and sustaining the current level of income, either because the underlying portfolio companies are structurally sound or because they can use options to generate income. We have run various scenarios and while it is hard to determine exactly how much income our equity funds will distribute, we believe that the portfolio should continue to deliver 3.50% yield. If this falls marginally below the 3.5% yield, we may act to support our target yield but will do so with a keen eye on the overall risk of the portfolio.

Overall, the portfolios have held up relatively well year to date in spite of the uncertainty. Our Balanced portfolio is down -7.05% versus -9.52% for the IA Mixed Investment 20-60 sector and -22.14% for the FTSE-100. It is encouraging to see that many of the most recent trades that we have implemented are paying off, such as the inclusion of CG Dollar and Muzinich Global Tactical Credit (up 1.16% since inclusion in February 2020 and 5.56% since March 26th 2020), while some of our longer standing investments such as Morgan Stanley US Advantage and Fundsmith continue to outperform their respective benchmarks (up 14.34% and 8.43% above their S&P 500 and MSCI World benchmarks respectively). As ever, we remain at your disposal so should you have any queries, don't hesitate to contact a member of the team.

Performance source: Fe Analytics, 01.01.2020-20.04.2020. Net of LGT Vestra Annual Management Charge.