For professional clients only

First State Investments

THE FIRST STATE DIVERSIFIED GROWTH FUND IS LEARNING FROM HISTORY

- When we say flexible, we really mean it
- Our focus on preserving capital is important, especially today
- An informed view, educated by history

The First State Diversified Growth Fund aims to deliver to our investors steady, long-term capital growth of inflation + 4% gross of fees over a five year rolling period, and we believe you need total flexibility to achieve this goal. Economies, political landscapes and investment markets all dramatically change over time; if we didn't have the flexibility to move anywhere across the spectrum of developed and emerging markets, be it in equities, fixed income, currencies and commodities, we wouldn't be able to squeeze the maximum value possible out of the opportunities we find.

This places us in the IA's Flexible Investment sector, giving us the broadest scope possible to seek out investment opportunities: no minimums must be held in equities, nor in bonds or currencies.

In our view, we wouldn't see the point of holding a mandatory 35% of the portfolio in a particular asset, say bonds, if we knew there was greater value to be found in other classes, such as equities or currencies. This broad view of asset allocation we refer to as our Neutral Asset Allocation (NAA), and we review it every six months, or in the instance a significant event occurs in the market that might change our economic outlook.

Then there's our dynamism when it comes to investing – part of the portfolio dedicated to finding short-term market inefficiencies to enhance returns. Every week we assess potential market dislocations. These may include finding certain pockets of value in an asset class or specific signals across return drivers such as the momentum of earnings; or it could be looking across the level, and changes, in interest rates globally.

Risk management is integral to protecting and growing our investors' capital. Whilst we don't shy away from risk - it's a contributing factor to how the fund achieves its return – we do however take careful steps to ensure we know exactly what risks exist in the portfolio, and if we find any that are unwanted we take steps to protect against them. It ensures we do everything we can to meet an extremely important short-term objective for our investors – capital preservation; no one wants to lose money.

There may not be a better time for funds that seriously consider downside protection: markets are currently in the midst of the third longest bull-run in history; valuations across asset classes are beginning to look stretched; the Fed and other central banks around the world are hiking interest rates; the economic cycle has matured; steroidal QE programs are unwinding.

This doesn't necessarily mean recession, but sell-offs in certain assets are more likely now than they have been for a number of years.

Our investment process carefully considers and models market risks. One of the ways we can do this is by using history as a guide. By reaching into the past: by analysing major market events and the causes behind shocks to certain asset classes, we are able to model the risks these events posed at those times and stress test our portfolio today. This helps us understand the potential impacts so that if (and when) these arise again, our preparation means the portfolio should perform much better than the wider market or other funds.

In the upcoming series of articles we're going to explore some of the interesting events in history that have upset the apple-cart and dragged asset prices lower, highlighting what we learnt and how we prepare our portfolio today in case similar shocks were to arise.

For further information about the First State Diversified Growth Fund click here.

Important Information