

Aegon

Researched Fund Panel Update

Update – November 2018

At the Aegon Quarterly Review Meeting on 22nd November 2018 the following changes to the Aegon Researched Fund Panel were agreed.

Additions

IA Global Emerging Markets: Capital Group New World

Following the Aegon Quarterly Review Meeting in November 2018, we have added the Capital Group New World fund to the Researched Fund Panel.

This fund holds a Morningstar Analyst Rating of Gold and offers investors a differentiated approach to investment opportunities in emerging market equities and to that end diversifies the fund choice within the asset class.

The fund is managed utilising a multi-manager approach with the assets divided between 10 managers who independently run their own sleeves. The managers are an experienced group, averaging 28 years of industry experience, 25 with Capital Group. Overall, the firm's multimanager approach is a systemic strength and this together with a strong analyst bench help to mitigate key-person risk.

Rather than being a pure play on emerging-markets equity, the fund often invests more than one-third of its assets in developed-market stocks (excluding South Korea and Taiwan) and between 5% and 15% in emerging market debt. These two elements have made the fund significantly less volatile than peers, without sacrificing too much upside. The management team adopt a long-term approach and seek to tap into emerging market growth through a revenue-centric approach. If a firm gets at least 20% of its revenue profit from the developing world it is also considered an eligible investment. The fund is a strong choice for investors looking for emerging market equity exposure but with lower volatility and we therefore recommend adding the fund to the Researched Fund Panel.

IA UK Gilt: Allianz Gilt Yield

Following the Aegon Quarterly Review Meeting in November 2018, we have added the Allianz Gilt Yield fund to the Researched Fund Panel.

The Allianz Gilt Yield fund is managed by Mike Riddell who joined Allianz from M&G as a member of the Conviction Fixed Income team in 2015, having managed the M&G gilt fund for six years. Riddell is supported on the management of this portfolio by an established Rates team based in Paris. Riddell appointed Kacper Brzezniak as deputy portfolio manager in 2017, one year after he joined Allianz as a junior PM.

The fund managers believe government bond markets are macro driven and portfolio themes are constructed from a top-down, global view. The aim is for yield curve positioning to drive the majority of the excess returns, with duration positioning and inflation-linked bond exposure an additional source of alpha. Our conviction in the fund has grown as Riddell has demonstrated his ability to use the fund's various drivers to add value and we therefore recommend adding the fund to the Researched Fund Panel.

Removals

IA Global Emerging Markets: MI Somerset Emerging Markets Dividend Growth

Following the Aegon Quarterly Review Meeting in November 2018, we have removed the MI Somerset Emerging Markets Dividend Growth fund from the Aegon Researched Fund Panel.

The fund continues to hold a Morningstar Analyst Rating of Bronze however we are removing the fund from the Panel in order to replace it with one of our higher conviction ideas.

IA UK Equity: Artemis UK Special Situations

Following the Aegon Quarterly Review Meeting in November 2018, we have removed the Artemis UK Special Situations fund from the Aegon Researched Fund Panel.

The fund continues to hold a Morningstar Analyst Rating of Bronze and while fund manager Derek Stuart has built a significant margin of outperformance versus peers over the entirety of his tenure, the fund has significantly lagged peers over three and five years. Its bias towards value names has contributed to this relative underperformance, as a value style has generally been out of favour.

The fund has also not participated in recent periods when value has briefly come into favour such as the second half of 2016 and there have been changes to the structure of the portfolio over time, such as the steady reduction of small caps since the early years.

As a consequence of the above our conviction in the fund is lower than it has been in the past and we therefore recommend removing the fund from the Researched Fund Panel.

IA Strategic Bond: Fidelity Strategic Bond

Following the Aegon Quarterly Review Meeting in November 2018, we have removed the Fidelity Strategic Bond fund from the Aegon Researched Fund Panel.

The fund's Morningstar Analyst Rating was placed Under Review in October 2018 following the announcement that the fund's manager, Ian Spreadbury, will be retiring on 31 December 2018.

At that point, the fund's current co-managers, Tim Foster and Claudio Ferrarese, will assume joint responsibility for this portfolio. The duo became co-managers in April 2017 and are portfolio managers within Fidelity's London-based fixed-income team. They have both been with the firm for over 10 years.

While we appreciate their tenure at the firm, their limited portfolio management experience on similar strategies, combined with the loss of Spreadbury's distinctive macro input, reduces our conviction in this team.

While the fund's Morningstar Analyst Rating has been reinstated at Bronze we believe there are alternative funds in which we have higher conviction and therefore recommend removing the fund from the Researched Fund Panel.

IA Targeted Absolute Return: Standard Life Global Absolute Return Strategies

Following the Aegon Quarterly Review Meeting in November 2018, we have removed the Standard Life Global Absolute Return Strategies fund from the Aegon Researched Fund Panel.

Following our review of the fund in our Q3 Report and the subsequent announcement of the retirement of Guy Stern, the last remaining architect of the strategy we recommend removing the fund from the Researched Fund Panel.

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