

Diversified fund range

October 2010



Fund manager Steve Waddington talks about his views on gold and government bonds, as well as his preference for a taking a structured approach to market returns.

The past two months have seen a continuation of this year's 'risk on', 'risk off' trading environment with risk assets falling in August but producing one of the strongest Septembers on record. Against such a volatile backdrop the Diversified Fund Range continued to perform well, with our flagship Diversified Target Return Fund (DTR) producing its fourth consecutive monthly gain despite two negative months for equities.

Gold as inflation and deflation protection: With the price of gold near all-time highs, many investors are asking whether there is potential for further gains. Our view is that the price of gold could benefit in either inflation or deflation tail events. If sustained inflation returns, gold should perform well as it is viewed as a hedge for rising price levels. Equally, if the global economy weakens then concerns over paper currencies could return and gold's safe-haven perception should drive returns. In the DTR Fund we hold a small 2% position as a form of protection against both these outcomes, rather than as a return-generating position in itself.

A barbell approach to bond exposure: Bonds have performed particularly well of late as concerns of a return to recession and the threat of deflation have driven yields lower. Our fund range have benefited from this given our significant allocations to fixed income. Given the uncertain economic outlook, we continue to believe in our fixed income holdings and currently favour

Performance

| Fund | 1 mth | 3 mth | 6 mth | 1 year | 3 years | 5 years | Since inception | Inception date |
|----------------------------|-------|-------|-------|--------|---------|---------|-----------------|----------------|
| Diversified High Income | 1.9 | 3.7 | -0.7 | 2.8 | -12.5 | -6.7 | 40.2 | 3/3/97 |
| Diversified Target Return | 1.9 | 3.1 | 0.2 | 3.8 | -5.4 | 6.9 | 13.2 | 18/2/05 |
| Global Diversified Return | 1.7 | 2.5 | 0.1 | 3.4 | -7.7 | - | 2.5 | 2/10/06 |
| Wealth Builder Balanced | 4.8 | 5.3 | -1.3 | 4.2 | -8.2 | 13.4 | 74.8 | 2/1/96 |
| Diversified Dynamic Return | 3.8 | 4.7 | -2.3 | 4.5 | -19.8 | 2.2 | 75.3 | 2/1/96 |
| IMA Cautious Managed | 3.5 | 5.6 | 1.1 | 7.5 | 1.9 | 13.6 | | |
| IMA Balanced Managed | 5.7 | 7.4 | -0.2 | 8.7 | -0.8 | 19.1 | | |
| IMA Active Managed | 6.6 | 7.7 | -0.6 | 9.1 | -3.4 | 18.9 | | |
| FTSE All Share | 7.0 | 13.6 | 0.3 | 12.5 | -3.1 | 24.7 | | |
| MSCI World GBP | 7.1 | 8.1 | -4.5 | 8.9 | 1.5 | 23.1 | | |
| MSCI Europe ex UK GBP | 10.6 | 13.2 | -2.5 | 1.8 | -5.6 | 34.6 | | |
| LIBID GBP 3 Months | 0.1 | 0.2 | 0.4 | 0.7 | 9.5 | 21.3 | | |

Source: Lipper, a REUTERS company. Data as at 30/09/10 All returns shown are percentage growth, total return, GBP, UK tax net.

a barbell approach; focusing exposure at both the long and short ends of the yield curve. As such we have been increasing direct holdings in longer dated gilts as well as exposure to short-dated corporate bonds.

Structuring market exposure: We continued to favour the benefits of taking a structured approach to returns from market direction, which enables the fund range to benefit from market gains whilst containing downside risk should markets fall back. In August, we closed our FTSE 100 option position when the market was at 5400, having initiated it at around 5200, making a 5.25% net return for the funds. We have reset a new position which gives upside from 5500 and protection all the way down to 4500. This position was implemented at zero cost by selling away upside above the 6000 mark.

A recording of the call is available online on our audio and video library

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