A note of caution

Market turmoil means that investing in a cautious way for retirement has never been more crucial, or more difficult. Here, we round up some of the better options.

After a working life of chase, hustle and hassle, with investments designed to grow, and a portfolio pregnant with risk, retirement should be a calmer time, and one's retirement portfolio should similarly be low on volatility.

Darius McDermott, managing director of Chelsea Financial Services, told What Investment, ‘You might want a more cautious SIPP portfolio in a number of circumstances – if you have a cautious mindset, if you are nervous about markets and are approaching your retirement date, if you are already retired or if you are planning drawdown in the near future. You want fund choices that give you some income and, importantly, a bit of growth without the risk of losing everything. After all, you may need your SIPP to last a good 20 years or more.’

Matt Ennion, investment director of Walker Crips, commented, ‘An investor with a cautious perspective might choose to have less in equities and more in bonds, and could look at absolute return funds.’

He continued, ‘I remember when gilts were yielding 4 per cent, and putting a portfolio together that yields 5 per cent is quite difficult today, but we are looking at commercial property right now.’

Below, we have canvassed the opinions of a range of investment professionals to gather together a collection of low-risk funds that may be suitable for the SIPP portfolios of the typical investor heading towards retirement.

Patrick Connolly of IFA firm Chase de Vere commented that the first fund he would recommend for this purpose is the JP Morgan Multi Asset Income fund. ‘This fund looks to achieve the best risk-adjusted income, which can be taken monthly, quarterly or reinvested for growth, by...’
Cautious investing

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investing in a wide range of underlying assets including equities, fixed interest and REITs [real estate investment trusts, which invest in property], he said. ‘It is ideal for a cautious investor as it targets capital preservation and low volatility by investing in around 1,500 underlying holdings.’

This is a £460 million fund that has returned 31 per cent over the past five years, compared with 24 per cent for the average fund in the IA Mixed Investment 20-60% Shares sector.

Perhaps of more relevance for investors with retirement in mind is the fact that the fund has a current yield of 3.85 per cent.

The largest holding in the fund is European property company Unibail-Rodamco. Microsoft is the second-largest holding, followed by Vodafone.

Going global
The first fund nominated by McDermott is the Artemis Global Income fund. This is managed by Jacob de Tusch Lec, a veteran investor and former academic.

The fund is £2.4 billion in size and has a current yield of 3.8 per cent. It is the absolute best-performing fund in the IA Global sector over the past three years, returning 54 per cent, compared with 25 per cent for the average fund. On a five-year time horizon, the fund has returned 86 per cent, compared with 46 per cent for the average fund in the sector. The largest holdings include AbbVie, Mitsubishi Financial Group and JP Morgan Chase.

Connolly next nominated the Newton Real Return fund. He commented, ‘This is a multi-asset core holding fund designed to preserve capital and beat inflation. The managers adopt a team approach to running the fund and have a great deal of flexibility over where they can invest, all the time being mindful of managing downside risks. The approach is proving to be very successful as the fund has produced a positive return in every year since it was launched in 1998.’

This is a giant fund, managed by Ian Stewart, with assets of more than £9.5 billion. It has returned 16 per cent over the past five years and has a current yield of 2.3 per cent.

Investors with a cautious investment approach may find it particularly relevant that the fund did much better than the sector and the market as a whole amid the volatility of 2011.

The largest holdings in this fund are US government bonds of various durations, and gold ETFs. The largest individual equity holding is Wolters-Kluwer, a digital information and publishing company that is listed on the Euronext Stock Exchange.

The fund also has holdings in Microsoft and drug firms Roche and Novartis.

Keep it positive
Laith Khalaf, senior analyst at Hargreaves Lansdown, nominated the Henderson Cautious Managed fund. This is a £2.1 billion fund that invests in both bonds and equities. The fund has delivered a positive return in each of the past four years, including posting a modest return in 2011, amid market carnage.

Khalaf remarked, ‘The fund is run by Chris Burvill, who has been successfully running this strategy for more than 20 years. This fund is typically split half-and-half between equities and bonds, with the manager keeping things simple at an asset allocation level and focusing on his stockpicking. He prefers stocks that come with a decent dividend, so the fund has a reasonable yield too.’

The yield on the fund is currently 3 per cent, and in total return terms it has returned 33 per cent in five years. The present breakdown between bonds and equities in the fund is approximately 55 per cent in shares and one third in bonds.

The largest equity holdings are HSBC, AstraZeneca and Barclays. The bond holdings that feature in the top ten are UK government bonds and US treasuries.

Strength in diversity
The next fund nominated by Connolly is the Schroder Multi Manager Diversity fund.

He commented, ‘This is an ideal choice for a novice or cautious investor, essentially being a whole portfolio in one fund. It usually invests about one third in equities, one third in cash and fixed interest and one third in alternative investments such as hedge funds and commodities. However, because the managers are worried about current asset prices, it has been very defensively positioned for some time. This should provide a good level of protection for investors.’

The Multi Manager Diversity fund is part of a suite of giant multi-manager funds by Schroders and managed by Marcus Brookes.

This particular fund has assets of £1.2 billion. There is at present no yield on this fund (but the same manager runs a multi-manager income fund for investors that have that as a priority). The Schroder Multi Manager Diversity fund was 19th out of 111 in 2011, and is also ahead of the sector for this calendar year.
The fund currently has 29 per cent in cash and 10 per cent in bonds, as well as holdings in alternative investment strategies.

**Absolutely fabulous**

At times of volatile market conditions, absolute return funds tend to enjoy a surge in popularity. Such funds can go both ‘long’ and ‘short’ on shares. Going long means investing in a share because you believe that it will rise in value. Going short means short-selling, whereby the investor profits if the asset falls in value in the future. If one has gone short on shares and then the market as a whole falls, it is likely that the value of the shares on which one has gone short will also fall, and an investor can profit even if the market falls.

McDermott is keen on the investment case for the £1.4 billion BNY Mellon Absolute Return fund, which has a substantial long position in banks. He also nominated the Premier Defensive Growth fund, which has assets of £327 million and has returned 12 per cent over the past three years. This fund has investments in a wide range of assets, including structured products, bonds and other funds.

Ennion nominated the Henderson UK Absolute Return fund as his favourite vehicle of this type. He said, ‘The manager is one of the best in the sector, and the fund is very steady as you go, reliable, which is what you want in a SIPP portfolio.’

The UK property fund nominated by Ennion is Kames Property Income. He commented, ‘This is quite a new fund. What we like about it is that it has a lot of exposure outside London, and we think that with a lot of cash having gone into London property, there might be better value, particularly from an income perspective, elsewhere.’

If there is one fund manager on this list who would revel in being described as cautious, it is Terry Smith, manager of the Fundsmith Equity fund, another of McDermott’s picks. Smith believes that there are only a small number of giant companies in the world worth investing in, and so tends to stick to those.

In performance terms, the £3.7 billion fund has had a quite remarkable time of late, returning 14 per cent over the past year, compared with an average net loss of 0.08 per cent for the average fund in the IA Global sector over the same period. This means the fund is ranked fifth out of 260 funds in the sector in the same time period.

The largest holdings in the fund include Imperial Tobacco and Johnson & Johnson.

**Hunting for growth**

McDermott’s final equity fund nomination is the Artemis Strategic Assets fund, which has more of a growth than an income bias and invests globally. The largest holdings in this £988 million fund are Lloyds Banking Group and Just Retirement Group. It has returned 12 per cent over the past three years.

**Strategic play**

McDermott next nominated the £800 million GLG Strategic Bond fund. The largest sector exposure is to bonds issued by financial companies. The fund has returned 13 per cent over the past three years.

Ennion’s favourite bond fund for the purpose of this cautious portfolio is Royal London Short Duration Bond. He commented, ‘The advantage of a short-dated bond fund in this instance is that there is plenty of liquidity in short-dated bonds if the fund suffers a raft of redemptions, and also that short-dated bonds offer greater protection against the perils of interest rates rising.

Turning his thoughts to the best funds to offer property exposure in a SIPP, McDermott nominated the £3.9 billion Henderson UK Property fund.

This fund has a current yield of 3.1 per cent and has returned 31 per cent over the past three years, compared with 21 per cent for the average fund in the IA Property sector over the same time period. The largest holding is 440 Strand, a commercial property in central London.