

SUMMARY:

Persistent concerns about global trade and slowing economic growth meant December was another difficult month for equity investors. The US was one of the hardest hit markets as a combination of the US Federal Reserve raising rates, ongoing fears regarding the China trade dispute and warnings from several IT firms (notably Apple) on their earnings sent markets tumbling. The only areas that really held up were defensive sectors such as utilities, reflecting a difficult environment for risk assets.

In Europe we saw warnings from car manufacturers over lower demand, while data showed that business activity was at its lowest level for four years. Political unrest continues in France, although there was some good news as the long running dispute between Europe and Rome on Italy's budget was finally resolved. The UK domestic sector suffered as the threat of a no deal in the Brexit negotiations grows. Emerging markets significantly outperformed developed markets during December, but still ended the month sitting on a loss.

This month we have identified 14 issues that need investigating, none of which were considered critical events.

SUMMARY OF GOVERNANCE FINDINGS:

	This Month	Last Month	Since Last Review
Total Events	14	8	44
Critical Events	0	0	0
Noteworthy Events	14	8	44
No. Removed from FE Invest Approved List	0	0	0

CRITICAL EVENTS:

These are events that require immediate action. This will centre on funds that have been removed from our short list because we feel there is a significant risk of them performing in a way that would be extremely detrimental to their present and future value.

- There are no critical events this month.

NOTEWORTHY EVENTS:

These are events that we deemed serious enough to warrant further investigation.

Fund Name: Allianz Gilt Yield

Event: Allianz has announced a change to the securities lending process within its funds.

Investigation – Spoke to Manager: Allianz Global Investors has used external third parties to carry out securities-lending transactions. The group has now decided to manage this function itself and has established a team. It means that the group will no longer share the revenues from this activity, but adds to the counterparty risk.

As of December 2018, Allianz SE has been rated AA by most rating agencies for its counterparty credit rating, so we believe the counterparty risk is minimum.

Conclusion: We do not believe investors need to take any action.

Fund Name: Allianz Strategic Bond

Event: Allianz has announced a change to the securities lending process within its funds.

Investigation – Spoke to Manager: Allianz Global Investors has used external third parties to carry out securities-lending transactions. The group has now decided to manage this function itself and has established a team. It means that the group will no longer share the revenues from this activity, but adds to the counterparty risk.

As of December 2018, Allianz SE has been rated AA by most rating agencies for its counterparty credit rating, so we believe the counterparty risk is minimum.

Conclusion: We do not believe investors need to take any action.

Fund Name: Artemis Global Emerging Markets

Event: We have identified a change in the fund's behaviour, which has seen it become less correlated to its benchmark and sector peers.

Investigation – Analysis of Fund: The magnitude of the change correlation is minimal. Recent sharp market movements in emerging markets, especially currencies, have exaggerated the price moves.

Conclusion: This does not reflect any changes in the investment process and both the fund's performance and positioning are in line with expectations.

Fund Name: Artemis Global Emerging Markets

Event: The fund saw larger than average inflows into the fund in the month of November.

Investigation – Analysis of Fund: The fund took in on average £5 million inflows each month; however, in November and December it took in £17 million and £44 million respectively. In April last year, the fund reached its three-year track record, so it is not surprising that the fund saw greater inflows in following months. The three-year track record is particularly strong, with outperformance in every single full calendar year since launch. The fund's assets under management are £217 million, and while the inflows in December represent a fairly large 20 per cent of the assets, we note that the strategy is still small and has plenty of capacity, so the inflows are not quite a concern yet.

Conclusion: We do not believe investors need to take any action.

Fund Name: Artemis Global Income

Event: Artemis has announced the introduction of an administration fee and a change from dual to single pricing.

Investigation – Spoke to Manager: The introduction of an administration fee replaces the variable costs that would be charged by the fund (for example, for auditors and account administration) on top of the annual management cost. This means that the ultimate operating cash flow of the fund should be much clearer to investors. If the cost of running the fund exceeds the admin fee, it means the cost will be borne by Artemis and not the investor. The change from dual to single pricing means there will be one single price for buying and selling units. The single price will be calculated daily and applied to purchases and sales of units alike to avoid investors experiencing a spread depending on whether they're buying or selling. Artemis is making this change to be consistent across its entire range.

Conclusion: We do not believe investors need to take any action.

Fund Name: Artemis US Select Fund

Event: Artemis has announced the introduction of an administration fee for the fund.

Investigation – Spoke to Manager: The introduction of an administration fee replaces the variable costs that would be charged by the fund (for example, for auditors and account administration) on top of the annual management cost. This means that the ultimate operating cash flow of the fund should be much clearer to investors. If the cost of running the fund exceeds the admin fee, it means the cost will be borne by Artemis and not the investor.

Conclusion: We do not believe investors need to take any action.

Fund Name: Baillie Gifford Global Discovery

Event: We have identified a change in the fund's risk profile, which has seen it increase relative to its sector peers.

Investigation – Analysis of Fund: The fund has a bias towards smaller and medium-sized companies and as such tends to be more volatile than the sector. The fund also takes some big sector bets, specifically 40 per cent in the healthcare sector and a large weighting to tech. This means the fund can perform quite differently to the sector. In the recent sell off the fund experienced a more volatile period of performance versus its less sector-constrained peers, intensified by the size bias. The team hasn't changed its positioning but as investors took shelter in larger companies, the fund composition looks even more different to the sector.

Conclusion: We do not believe investors need to take any action.

Fund Name: BlackRock Absolute Return Bond

Event: The fund has seen a large increase in inflows in recent months.

Investigation – Analysis of Fund: The fund is still below our initial review level of £2.5 billion and remains invested in a variety of liquid strategies. We will monitor the impact of these inflows on exposures and performance, while bringing it up with the manager at the next fund review.

Conclusion: We do not believe investors need to take any action.

Fund Name: Invesco Global Opportunities

Event: Joe Dowling has been added as a deputy manager on the fund.

Investigation – Analysis of Fund: Joe Dowling has been an analyst on the fund for a long time, working closely with Stephen Anness and Andrew Hall since 2013. The promotion to deputy manager is just a formalisation of his role. We don't expect any changes to the process but will continue to monitor the fund following Dowling's promotion.

Conclusion: We do not believe investors need to take any action.

Fund Name: M&G North American Dividend

Event: The fund saw large outflows in excess of £100 million during the month of November.

Investigation – Analysis of Fund: The fund has experienced significant redemptions in Q4 2018. Despite the considerable amount, we do not believe it is a big issue, given the increased volatility and poor performance of the US equity market has probably been causing some investors to redeem. The fund did not appear to raise significant cash levels before November; however, the portfolio is very liquid at its current size and therefore this trading should not impact on the performance of the fund significantly. The fund has retained a good level of assets despite changing portfolio manager less than four years ago, so we do not see this as a significant problem.

Conclusion: We do not believe investors need to take any action.

Fund Name: Pictet Clean Energy

Event: We have identified a change in behaviour, which has seen the fund become less closely correlated to its benchmark.

Investigation – Spoke to Manager: The team has shifted its positioning recently out of some of the more cyclical names, including semiconductors, and into the more defensive utility side of clean energy. This is a reflection of where the team thinks we are in the cycle. The benchmark is the MSCI World and the sector is IA Global, which do not make for appropriate comparisons given the investment focus of the fund. We are comfortable with the team's positioning and its decision to move towards the more defensive part of its universe.

Conclusion: We do not believe investors need to take any action.

Fund Name: Pictet Emerging Markets Sustainable Equities

Event: The fund has seen larger than average inflows in November and December.

Investigation – Analysis of Fund: In the first ten months of the year, the fund on average saw net outflows of £3 million per month. November and December both saw £15 million inflows each month into the fund. The strategy has suffered relative to the benchmark in 2016 and 2017 as the fund cannot invest in a large segment of the market that has driven returns in previous years – that is, Chinese tech. 2018, however, saw the fund generate strong relative returns and protected well in the downmarket so not holding Chinese tech was a positive. Another factor that could be at play is the growing emergence of sustainable investing among investors – the global emerging market sector only has one or two sustainable funds, so it is not surprising to see the inflows. The respective inflows are still less than 10 per cent of the total fund, so it is not a concern currently.

Conclusion: We do not believe investors need to take any action.

Fund Name: Pictet Timber

Event: The fund saw a large outflow of just under £100 million in November.

Investigation – Analysis of Fund: The fund experienced large outflows in November following poor performance in the October sell off. As a specialist fund focused on the timber market it is heavily influenced by the price of lumber, which declined throughout the second half of 2018; this was in stark contrast to the first half of the year where prices soared (and the fund experienced large inflows). Often some of the timber fund's holdings can be seen as bond proxies (real estate and utilities) – that is, when the US Federal Reserve is on an interest-rate-hiking path the fund may experience outflows. The fund is highly liquid and we don't expect the outflows to impact performance.

Conclusion: We do not believe investors need to take any action.

Fund Name: Threadneedle UK Property Authorised Investment

Event: We have seen an increase in the risk levels of the fund.

Investigation – Analysis of Fund: On 13 December 2018 the decision was made to switch the pricing basis from 'offer' to 'bid' following a period of sustained net outflows. The difference between the two prices is typically around 6 per cent. This was reflected in December's performance, with an equivalent drop, and has caused the increase in risk measures.

Conclusion: We do not believe investors need to take any action.