

Emerging markets help IFA competitors escape the doldrums



Jeff Salway

THE 2010 IFA of the Year competition has reached its climax and our advisers can feel relieved that they didn't encounter the shocks that shaped the previous contest.

Our 2008 competitors had to negotiate not only nerve-testing market volatility but a near-collapse of the banking system. This time around has been far less eventful, despite some market turbulence last year and the fallout from various sovereign debt crises, but no one was complaining. All IFAs recorded decent gains, whereas our winner in the previous competition

was the one who best minimised the losses suffered.

Unsurprisingly there were notable differences in asset allocation, with emerging markets and global funds prominent, and markedly less investments in the UK and Europe. China overtook Japan to become the world's second largest economy in GDP terms in the first half of last year. And while volatility remains, and investors in China and other emerging markets have to accept periodic corrections, investors and IFAs are becoming increasingly

sophisticated in the way in which they get into emerging markets. exposure to emerging markets.

The Investment Management Association this week revealed that sales of commodity funds reached a record high in November last year. The surge reflected not only rising commodity prices, but also the fact that people are getting into sectors such as commodities for another way



Emerging markets was the biggest-selling fund sector in November, its highest sales month on record. Emerging markets will almost certainly be an even bigger feature of our next competition – and with experts warning of a significant correction over the coming year, it's the only feature we can predict with any degree of confidence.

Risk takers well placed to fly

This year may be a bumpy ride, but investors could see their assets soar, writes **Andrew Milligan**

THE FTSE 100 index ended 2010 at about 6,000, a two-year high. Many of you will have seen the prediction from Keith Skeoch, the chief executive at Standard Life Investments, that the index could reach 6,900 by the end of 2011. Rising corporate profits and reduced fears of double-dip recession drove the recent rally – indeed, December's jump in equity prices was the largest for 23 years.

We expect the positive momentum behind the market will be maintained in 2011. Continued global economic recovery and the high exposure by many large UK companies to overseas earnings will deliver another year of strong cash flow. Although the ride will be bumpy, just as it was in 2010, it should be noted that, even at 6,900, the FTSE would still be below the all-time high of 6,950 reached more than a decade ago, in December 1999.

Time to buy? A bumpy ride creates good opportunities. In our Global publications we have set out in some detail the difficult decisions facing policy makers as they navigate the continued aftershocks from the financial crisis. In the coming year investors will need to be reassured that China can quell its inflationary pressures, that the Eurozone area can hold together, that fiscal tightening in the UK or Europe will not be too abrupt, that oil prices will not surge and squeeze company profits and household incomes alike, that the Korean peninsula will not erupt – just some of the issues to consider.

Underpinning all this is the long, slow process of rebalancing economies, restoring banking systems and housing markets to health, transferring resources away from the public to the private sectors. In summary, equities, and other risk assets, should perform well – in those periods when investor attention is not diverted by complex geo-political or financial issues.

● Andrew Milligan is head of global strategy, Standard Life Investments

Picture: Alexander Heimann/AFP/Getty Images

RAAAAAAAAAAISING THE STANDARD

ALL 9 UK EQUITY FUNDS FROM STANDARD LIFE INVESTMENTS ARE RATED BY S&P[†]

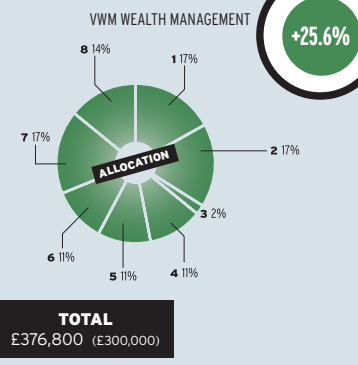
www.ukequityinvesting.co.uk

STANDARD LIFE INVESTMENTS

[†]Standard&Poor's as at 02 August 2010. Standard Life Investments Limited, tel. +44 131 225 2345, a company registered in Scotland (SC123321) Registered Office: 1 George Street, Edinburgh EH2 2LL. The Standard Life Investments group includes Standard Life Investments (Mutual Funds) Limited, SLTM Limited, Standard Life Investments (Corporate Funds) Limited and SL Capital Partners LLP. Standard Life Investments Limited acts as Investment Manager for Standard Life Assurance Limited and Standard Life Pension Funds Limited. Standard Life Investments may record and monitor telephone calls in the UK to help improve customer service. All companies are authorised and regulated by the Financial Services Authority. ©2010 Standard Life Investments www.standardlifeinvestments.com

David Thomson

FUND CHOICES	£
1 Standard Life UK Equity Unconstrained	£68,430
2 Investec Global Gold A	£62,790
3 7IM AAP Adventurous D	£6,200
4 7IM Adventurous D	£39,950
5 Marlborough Special Situations	£42,010
6 Newton Oriental R	£39,720
7 Aberdeen Emerging Markets	£63,950
8 Schroder Asian Alpha Plus	£53,750



Everyone a winner

As the fund-based part of our challenge draws to a close, it is clear that all the advisers have done well, says Raymond Ellis

LAST year was an unpredictable and volatile time for the fund management industry. Cash and money markets continued to produce low levels of returns with the UK bank base rate running at 0.5 per cent.

Government bonds and index-linked gilts started off the year with above-average returns but this situation was quickly reversed as the effects of quantitative easing (QE) started to filter through the system. Commercial property returns surprised most people by producing around 10 per cent and both UK and global equities rallied strongly throughout December, closing at all-time highs for the year on Christmas Eve. The absolute return sector (a relatively new asset class) came into its own and helped our IFA competitors control and deal with the high level of volatility they experienced throughout the year.

As our readers will see from the pie-charts on this page, all eight competitors have produced year-end returns in excess of 20 per cent which, in comparison with the average return from the Global Growth sector (8.46 per cent) and the Active Managed sector (8.51 per cent), is a fantastic result and should more than meet the expectations of Chris and Fiona Anderson, our case study clients.

The fund performance part of our IFA of the Year competition finished officially at close of business on 31 December although the judges have not, as yet, chosen the winner because the final selection will not only be based on fund performance. Additional points will be awarded for the quality of their initial report, the ongoing management of their clients' portfolio, the IFAs' commentaries and whether the judges felt they fully satisfied the original remit of the competition based on the case study.

The winner will be announced at a special award ceremony to be held in February in one of Edinburgh's top hotels. *The Scotsman* also plans to produce an IFA of the Year 2010 supplement dedicated to the competition and its competitors.

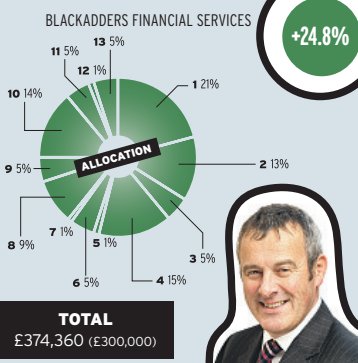


Good luck to all competitors and thanks for their participation – they should all be very satisfied and proud of their portfolio management skills. The financial benefits of using an experienced and highly qualified IFA/financial planner cannot be underestimated.

● Raymond Ellis is a director of Scott-Moncrieff Wealth Management and a judge of the competition

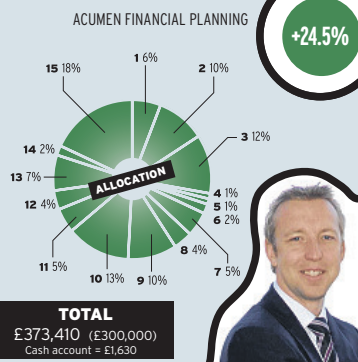
Gerald Callander

FUND CHOICES	£
1 Jupiter Merlin Worldwide Portfolio	£74,860
2 M&G Global Basics	£49,580
3 Threadneedle Latin America	£17,670
4 Marlborough Special Situations	£55,350
5 Newton Global Dynamic Bond	£3,730
6 Newton Oriental	£19,870
7 Newton International Growth	£4,930
8 7IM AAP Adventurous D	£35,350
9 Standard Life Global REIT	£18,550
10 Standard Life Global Absolute Return Strategies	£51,200
11 Schroder Asian Alpha Plus	£20,180
12 Schroder Recovery	£5,110
13 Schroder Global Emerging Markets	£17,980



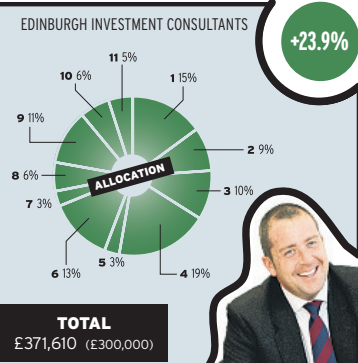
David Gow

FUND CHOICES	£
1 Ssga Asia Pacific ex Japan	£22,720
2 Ssga North America equity tracker	£35,580
3 IFSL Privolto Stabiliser	£47,320
4 Marlborough Extra Income	£3,690
5 Marlborough Global Bond	£4,520
6 Marlborough High Yield Fixed Interest	£6,220
7 Newton Cautious Managed	£17,320
8 Newton Oriental R	£13,050
9 Newton UK Opportunities R	£35,390
10 7IM AAP Adventurous D	£48,970
11 Schroders European Small Cos A	£18,670
12 Schroders Tokyo A	£14,880
13 Schroders UK Mid 250 A	£26,080
14 Standard Life Higher Income	£8,210
15 Standard Life UK Smaller Cos R	£69,160



Scott Mackintosh

FUND CHOICES	£
1 Black Rock Gold & General	£52,420
2 Allianz RCM BRIC Stars	£33,740
3 Baillie Gifford Emerging Markets Growth	£37,910
4 Marlborough Special Situations	£68,570
5 7IM Moderately Adventurous Portfolio	£12,710
6 Newton Income	£43,950
7 Schroder Asian Alpha Plus	£12,060
8 Schroder Income	£23,800
9 Standard Life Global Absolute Return Strategies	£42,370
10 Newton Global High Yield Bond	£23,770
11 Schroder Tokyo	£20,310



DAVID THOMSON SAYS FACING CHALLENGES CALLS FOR FLEXIBILITY

IN THE prevailing volatile market conditions, it pays to be nimble and flexible. While all the competitors have made good returns, they have all had to contend with a Greek crisis and an Irish crisis, plus other factors such as a change of government in the UK.

Accordingly, although we have established and maintained an adventurous, concentrated portfolio consistent with the Andersons' speculative growth objective, we have overlaid this strategic approach with active tactical asset allocation and fund selection.

For example, we responded to the Greek crisis by selling our European holdings in two tranches and reinvesting in more defensive corporate bonds and gold. Gold has served the portfolio particularly well

as we have seen it as a hedge against inflation, geopolitical risk and problems in the European sovereign debt markets.

Prior to the formation of the coalition government, we were very wary of the UK market but have gradually built our position since May, as it often pays to adopt a contrarian approach and to look for a catalyst, such as a change to a more pro-business government.

Post-Greek crisis, we have reduced our defensive positions in areas such as absolute return funds and corporate bonds and increased our exposure to equities, including Europe, but again took profits when the Irish problems surfaced.

A theme which has persisted through the year has been a healthy exposure to the Far East and emerging mar-

kets, where we believe longer-term growth prospects look good compared with Western markets, which remain weighed down by the aftermath of the credit crunch.

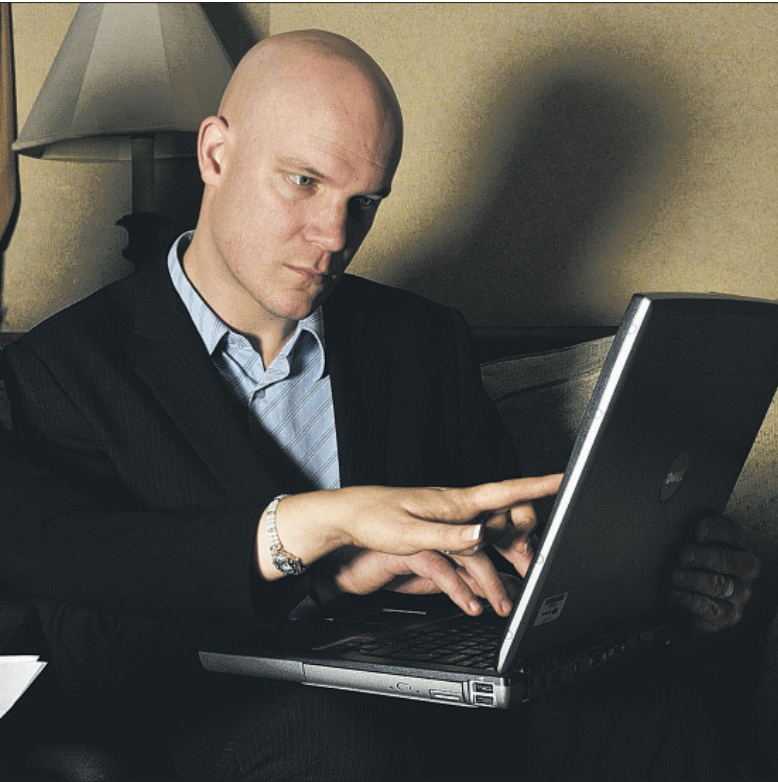
Accordingly in volatile markets, a buy-and-hold strategy is unlikely to yield the best returns. Those IFAs with discretionary investment capability have sheltered their clients' portfolios from downturns and taken advantage of the low points to capture as much of the upside as possible.

We expect 2011 to be as volatile as 2010,

so an active approach to investment may again prove beneficial.



in IFA competition



THE SCENARIO

CHRIS Anderson is a self-employed retailer who runs a chain of fashion boutiques. His wife, Fiona is a partner in an Edinburgh-based law firm. They are both in their mid-30s and have no children. Chris' mother recently died, leaving her estate to Chris, an only child. The net estate after paying the inheritance tax liability was valued in excess of £1.25 million.

Chris and Fiona have decided to clear the mortgage on their Edinburgh property - circa £250,000 - and buy a small flat in the South of France for £150k. A further £450k has

been set aside for a future business plan and another £100k has been placed in two separate high-interest deposit accounts.

Chris is keen to invest in the stock market and is seeking the services of an independent financial adviser. The couple have decided to commit a minimum of £300k to an investment portfolio, taking a speculative/growth approach, and are prepared to invest their funds for at least a five to ten-year term.

They want to ensure their beneficiaries will not have to pay any inheritance tax on any part of their estate.

MANY PEOPLE were surprised that 2010 turned out so well, with the FTSE producing a positive return of 9 per cent. Looking back this is quite remarkable as the FTSE made a negative return of 0.79 per cent in the first half of the year, as highlighted in *The Scotsman* Competition Update of 21 July, 2010.

During the third quarter, it began to emerge that fears of a double-dip recession in the UK had been overplayed. Given this worst case scenario had already been priced into the market, the inevitable upswing began to gather pace.

Chris and Fiona's speculative mandate allowed our portfolio to have wide specialist and global coverage. I resisted making changes to the portfolio until

STRONG SECOND HALF TURNS 2010 INTO A WINNER, SAYS TONY MCPHEE

August and, thereafter, given this is a one-year competition, actively switched throughout the last four months.

The effect of the August switches amounted to one step forward by increasing Chinese exposure but a step back by doubling Standard Life GARS (a defensive move at the wrong time). I quickly corrected this position and built in Brazil exposure and invested heavily in the Eclectica Agricultural Fund, the latter producing a very welcome 9.5 per cent growth in December alone.

However, despite the hype

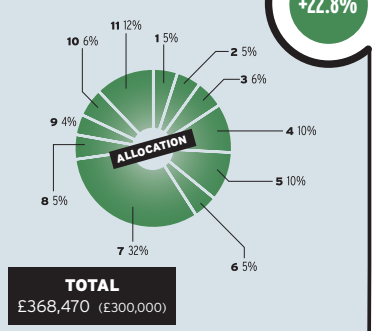
given to everything BRIC in 2010, the two outstanding funds within my portfolio were Standard Life UK Smaller Companies and Marlborough Special Situations. I invested in these throughout the year and, with hindsight, should have invested more.



Tony McPhee

FUND CHOICES	£
1 Allianz RCM BRIC Stars	£17,350
2 Marlborough High Yield Fixed Interest	£17,550
3 Marlborough Special Situations	£22,340
4 7IM AAP Adventurous	£36,820
5 Newton Oriental	£36,640
6 Newton Global Opportunities	£17,870
7 CF Eclectica Agriculture	£115,510
8 Schroder Asian Alpha Plus	£20,180
9 Standard Life Global Absolute Return Strategies	£15,750
10 Standard Life UK Smaller Cos	£22,920
11 Allianz RCM Brazil A	£45,540

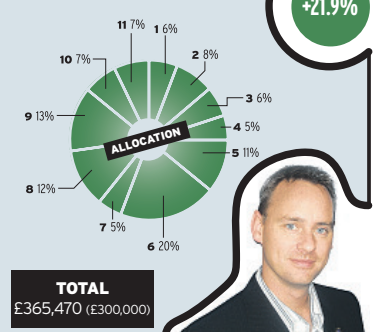
SINCLAIR WOOD ASSET MANAGEMENT



Paul Lothian

FUND CHOICES	£
1 JPM Natural Resources	£21,920
2 Schroder Global Property Securities	£28,340
3 Marlborough Special Situations	£22,250
4 Newton American	£18,090
5 7IM AAP Adventurous D	£39,080
6 Standard Life Global Absolute Return	£78,410
7 Standard Life European Equity Growth	£17,540
8 Threadneedle Latin American	£43,840
9 Schroder Global Emerging Markets	£45,940
10 Standard Life Select Property	£26,070
11 Newton Real Return	£23,990

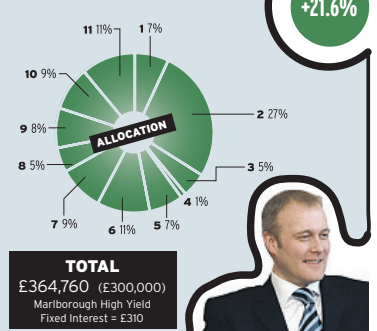
VERUS CHARTERED FINANCIAL PLANNERS



Robert Bell

FUND CHOICES	£
1 JPM Natural Resources	£25,460
2 Aberdeen Emerging Markets	£99,610
3 Marlborough Special Situations	£17,860
4 7IM AAP Adventurous	£3,270
5 Newton Managed	£24,390
6 Newton Higher Income	£41,080
7 Schroder UK Alpha Plus	£34,080
8 Standard Life Asia Pacific Growth	£18,070
9 Jupiter India	£28,850
10 Newton Asian Income	£32,200
11 Standard Life Global Absolute Return Strategies	£39,580

BELL FINANCIAL PLANNING



Alistair Brown

FUND CHOICES	£
1 JPM Emerging Markets Infrastructure	£31,780
2 M&G Global Basics	£19,760
3 Allianz BRIC Stars	£74,750
4 Marlborough Far East Growth	£29,110
5 Marlborough Special Situations	£22,340
6 Newton Income	£18,040
7 7IM AAP Adventurous D	£6,610
8 Standard Life Global Absolute Return Strategies	£69,490
9 Standard Life UK Opportunities	£18,560
10 Schroder Life Income Maximiser	£34,690
11 Schroder Recovery	£18,060
12 Schroder European Alpha Plus	£17,660

EDINBURGH RISK MANAGEMENT

