

## **Strategic Asset Return fund strategy changes**

We will shortly be making some strategy changes within the Irish Life Strategic Asset Return (SARF) fund.

### **Background to SARF**

In putting together a compelling investment solution for the Alternatives market in Ireland, we attempted to address the two most significant shortcomings of existing alternative solutions available, namely

- single manager/strategy risk
- poor transparency (so called “black box” risk).

We concluded that a product constructed using a number of world class specialist managers, diversified by both asset class and underlying investment strategy, would result in a more robust absolute return investment solution that significantly addresses single manager/strategy risk while delivering investors greater transparency in terms of visibility of the underlying drivers of fund performance.

### **Why are we making these changes?**

SARF is an actively managed alternative investment fund and we continuously review the fund, both in terms of reviewing the existing strategies and looking for new investment opportunities for the fund. After a detailed review of the strategies in the fund and the current market environment we have decided to make some changes to better position the fund going forward. The first change, in the fixed income allocation is to better position the fund for a broader opportunity set based on our outlook for bonds. We have also decided to exit the commodity strategy in the fund. The changes and rationale behind them are detailed in full in the next section ‘What is changing?’.

We are committed to the long term success of the Strategic Asset Return Fund and focused on meeting the stated objective of the fund for our clients which is to generate a return of G7 inflation +3% over a 3 to 5 year rolling period. The allocations in SARF are dynamic and this flexibility is a key benefit of SARF’s multi-manager, multi-strategy construction for your clients. SARF is not constrained by a benchmark and this flexible approach allows us to rotate in and out of different managers and strategies as opportunities arise and market conditions evolve. Looking ahead, we have always argued strongly that Alternatives deserve a significant allocation in any multi-asset portfolio and we believe that the Strategic Asset Return Fund by blending different investment managers and strategies is an attractive proposition in this area for clients.

### **What is changing?**

The underlying manager allocations in SARF fall into two distinct categories - core allocations and satellite allocations. The core allocations are more directional strategies with an absolute return orientation. These typically account for 70% to 80% of the entire portfolio by value. Satellite allocations are more market neutral, absolute return strategies and typically constitute 20% to 30% of the portfolio.

To add more diversification within the fixed interest allocation, we have selected two different strategies, PIMCO’s Unconstrained Bond Fund and Blackrock’s Fixed Income Global Opportunities Fund. In our view, both managers have strong track records in fixed income investing, are

differentiated from their peers in terms of the depth of their investment research capabilities and are overseen by a strong independent risk management and oversight functions which we regard as being particularly important for you and your client in any absolute return strategy. To achieve this, we will exit the PIMCO Total Return Fund, while we still obviously hold PIMCO's fixed income skills in high regard with the addition of another of their funds, the long bias nature of this US centric fixed income strategy makes it less attractive now than when we originally invested given the increased downside risk posed by the gradual withdrawal of quantitative easing. We will also exit the Hermes Absolute Return Commodity Fund. The portfolio changes are outlined in detail below.

1. **Increase exposure to absolute return focused fixed income strategies through the addition of PIMCO's Unconstrained Bond Fund and Blackrock's Fixed Income Global Opportunities Fund:** Given the outlook for fixed income markets in general, we believe now is the appropriate time to invest in unconstrained fixed income strategies for two key reasons:

(1) These strategies are unconstrained by a benchmark and thus, unlike long only biased strategies, have the potential to continue delivering positive returns even in a rising interest rate environment;

(2) These strategies have much greater freedom to invest across a wider range of fixed income instruments (e.g. can also invest in non-investment grade bonds, structured credit and loans) to better exploit opportunities within fixed income sectors than is possible with a long biased only strategy.

2. **Exit the Hermes Absolute Return Commodity Fund:** Commodity strategies have faced a challenging trading environment over the last two years and there currently is no reason to believe that the trading environment for commodity trading strategies will be any different from the recent past. As a result, we will be exiting the Hermes Absolute Return Commodity Fund and reallocating this allocation to the absolute return fixed income strategies mentioned above.

The changes in terms of actual allocations are shown in the table below:

<b>SARF - Target Allocations</b>		
	<b>Old Target</b>	<b>New Target</b>
GMO Real Return Fund	60.0%	60.0%
Amundi Absolute Volatility World Equities Fund	15.0%	15.0%
PIMCO Total Return Bond Fund	15.0%	<b>0.0%</b>
Hermes Absolute Return Commodity Fund	10.0%	<b>0.0%</b>
Blackrock Fixed Income Global Opportunities	0.0%	<b>15.0%</b>
PIMCO Unconstrained Bond Fund	0.0%	<b>10.0%</b>
	<b>100.0%</b>	<b>100.0%</b>

#### **What other funds does this impact?**

The CORE funds invest approximately 15% in SARF. These changes described above will apply to CORE.

If you would like any further information on these changes please contact your account manager.