

Spreading the load makes for a safer journey

Irish Life's new fund invests in a range of assets in case of a crash

PAT O'SULLIVAN is head of investment strategy at Irish Life Retail. His responsibilities include Core, Irish Life's new fund, which aims to provide more stable returns by investing in a wider range of assets. The idea is to mix assets whose returns move independently, ensuring there will always be some growth in portfolios, even when markets crash.

The fund is open to lump-sum investors with at least €20,000, or €3,000 if invested through a pension. Regular investors must contribute at least €250 a month, or €50 a month if investing through a pension.

Investment philosophy

Core is Irish Life's response to the losses incurred by managed funds during the property and stock market crash.

"Managed funds typically put up to 70% of their money in equities, with some property and bonds," said O'Sullivan. "That wasn't enough diversification to protect investors from the market turbulence of 2008."

Core aims to reduce risk by investing no more than 50% in equities and adding exposure to specialist sectors such as emerging market and infrastructure equities. It also introduces alternative assets such as managed futures — trading in the future values of equities, interest rates, currencies and commodities.

Will the new fund's claims to provide less volatile returns cause an exodus from managed and consensus funds?

"It depends on what type of investor you are," said O'Sullivan. "If your view is that we are on the cusp of a bull market,

managed funds will perform better because of their greater exposure to equities."

Over time, the performance gap should close. "Over a full investment cycle — say, seven to 10 years — Core should deliver the same returns as a managed fund, but with only two-thirds of the risk," he said.

Performance

As a new fund, Core does not have an investment track record. Its diversified investment style would have shielded investors from some of the bruising losses incurred during the crash, according to O'Sullivan.

"During the extreme market conditions from late 2007 to early 2009, when global equity markets experienced huge declines, Core would have lost about two-thirds of what the average managed fund lost, based on simulated past returns," he said.

Buying and selling

At present, Core is invested as follows: 50% in equities, 25% in



O'Sullivan: diversification



Exposure to global equities is expected to drive returns

bonds, 16% in alternative assets such as managed futures, 7% in property and 2% in cash.

The equity component mostly tracks the FTSE All-World index, on the basis that stock picking is unlikely to yield better returns in capital markets that are working efficiently.

Managed futures, at 9% of the fund, form the main alternative component. Futures are contracts to buy or sell assets at an agreed price in the future — offering the chance to make money depending on the manager's view of where markets are heading.

They act as a counterweight to the fund's other investments, because managed futures can profit when markets fall as well as rise.

Managed futures have delivered high single-digit returns in the past, lower than those of other asset classes. This is a price worth paying, claims O'Sullivan, because of the buffer they provide against falls in other assets.

"Alternative assets help to diversify the traditional mix of investments but they can be high-risk if invested on a stand-alone basis," he said. "Blending assets such as shares and bonds

with alternatives should give a smoother investment journey than that of a typical managed fund over the long term."

Other alternative assets include investments in two Irish Life products — the country and currency overlay strategy and the Best Ideas fund. The latter follows Irish Life's investment convictions by focusing on a handful of themes.

"We're favourably disposed towards a selection of equity markets," said O'Sullivan.

"We also see value in short-term government debt and in bonds issued by financial institutions covered by the state guarantee."

Outlook

The present volatility in equities and currencies, centred on fears for the stability of the eurozone, provide Core with ideal conditions to prove its worth.

"We believe there's good value in global equities for long-term investors," said O'Sullivan. "The recent correction has created more value."

He expects the fund's 50% exposure to equities to be a key driver of returns.

Niall Brady