

**HD** **SLI Gars fund's top trades revealed**

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Standard Life Investments' Global Absolute Return Strategies (Gars) fund is hedging against a potential sharp economic slowdown in **China**.

The £19 **billion** fund is positioning for this through its call that interest rates in Australia will be cut. Andy Ford, a Gars strategist, put the move in the context of the travails of Australia's natural resources sector as **China's** demand for raw materials waned.

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'Rather unhelpfully for Australia's **mining** sector, this is happening at a time when various other commodity-producing countries are seeing capacity that has been building up come online,' Ford said.

This has prompted Australian resource companies to slash their capex budgets and workforces, sending unemployment from less than 5% in 2012 to almost 6% now. 'There is definitely a case of the Dutch disease,' commented Ford.

'We think the Reserve Bank of Australia is going to have to cut rates to spur domestic demand.' The country's interest rate is currently 2.5%. 'They definitely have room for manoeuvre given that inflation is at pretty muted levels.'

Ford added that the new Gars position would also serve as a hedge against a sharp slowdown in **China**.

A second newly initiated trade has been for Gars to back long-dated European **bonds** relative to long-duration US Treasuries and Japanese **bonds**.

'European yields are pretty well anchored, whereas those in Japan could see an increase,' Ford explained.

Given the scale of quantitative easing already in place in Japan, Ford anticipates the Bank of Japan is 'reaching the end of the road' in terms of what it could do to hold yields down.

Gars had additionally gone short US Treasuries in order to offset the correlation risk between those assets and European **bonds**, Ford explained.

Reviewing the fund's performance in recent months, the strategist highlighted several successful Gars investments and expressed confidence in some that have not yet paid off.

Contributing to a return of 7.5% for 2013, with 1.32% coming in November and 0.84% in December, Ford first pointed to an investment backing Japanese equities over Korean equities. This was the best performing position in November and second best in December, he said.

This was primarily due to currency effects. With the effects of Abenomics well known, Ford contended that developments in Korea had been just as important.

'Political changes in Korea mean there is a lot less political will to intervene and weaken the won,' he argued.

Owning the major **oil** companies had helped in December too, Ford said, having responded well to optimism about the global economy, while offering an attractive yield of around 4%. His comments were made ahead of Shell's fourth quarter profits warning on Friday.

Gars has furthermore used this investment as a hedge against higher **oil** prices, and it has replaced a position in Russia that the fund had used for the same purpose.

'If there is a flare up in the Middle East, this strategy could essentially get us out of jail.'

Detractors from performance at the end of 2013, however, included investments in global listed real estate. Ford nevertheless remains confident on property for the long-term, emphasising that two-thirds of the returns historically came from income.

A second negative was the conviction that long-dated European bond yields would rise. 'What we're looking for here is essentially demand at the long end of the European curve to fall,' Ford said.

He maintained that changes to the asset allocation of Dutch pension funds would still result in lower demand for long-duration European **bonds** though.

**RE** austr : Australia | china : China | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRIC Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcos : Developing Economies | easiaz : Eastern Asia

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