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Positioning a Defensive Strategy "about being realistic and not being too greedy" says Bordier (UK)'s Robinson

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“Investors’ expectations are possibly now anchored a little too heavily on the attractive returns achieved across various asset classes in recent years – some of which simply represents making up on lost ground”, according to Bordier (UK) Chief Investment Officer, Mark Robinson.

In a world of exceptionally low inflation and interest rates, Bordier (UK) believes return expectations need to be moderated, even for the most adventurous of investment strategies.

Whilst investors can be excused for ignoring some of the less exciting investment approaches in the post-financial crisis era, preferring strategies capable of rebuilding their wealth over relatively short timeframes, and turning a blind eye to more pedestrian investment avenues, the firm believes some care must now be exercised, at a time when the monetary brakes seem set to be applied.

Lower risk investors appear to face a particularly challenging period as the traditional backbone of their portfolios, Fixed Interest, could well catch them out. Bordier (UK) has already responded to the likely shift in sentiment towards bond markets, reducing exposure significantly over the past year and ensuring that what exposure the firm does have – principally via actively managed strategic bond funds – has reduced sensitivity to higher interest rates and inflation. The firm’s exposure is now restricted to strategic bond fund managers who have the tools to actively manage duration, as well as index-linked bond funds, which it believes will cope better in a rate-rising environment.

This decision has coincided with greater confidence in Commercial Real Estate, where it has taken advantage of the broadening recovery in asset prices and attractive rental yields outside some of the mainstream areas.

An increased commitment to Absolute Return funds has generally provided positive returns, even in the most challenging of market conditions; in this area it has been a question of diversification across managers who have typically neutralised market risk and who have been capable of delivering low, but stable, positive returns. It is the return profile of some of these funds that makes them attractive, particularly for a Defensive strategy. Unambitious as some of these managers may seem, those which promise absolute returns but deliver something entirely different, are of little interest to investors.

At the riskier end of the investment spectrum, Bordier (UK) have positioned the Defensive Strategy at the upper end of its 0-20% equity budget range. This decision has also been beneficial, with the focus on actively managed funds and modest diversification into international stock markets contributing to the Strategy's continuing success and steady upward progress.

Defensive Strategy records 13th consecutive positive year

The Bordier (UK) Defensive Strategy has now delivered positive returns for 13 consecutive years, with a total return of 98.1% since inception (July 2002) vs +82.5% for the IMA Mixed 0-35% Shares and 58.7% for inflation (RPI). It has also delivered a total return of 106.6% over this period against +80.3% for the IMA Mixed 0-35% Shares, and has even beaten the IMA Mixed 20-60% Shares (+95.3%).

Since inception, it has outstripped inflation (RPI) by an average of 1.8 percentage points per annum and delivered an annualised return of 5.3% – and it has done so with lower annualised volatility than the IMA Mixed 0-35% Shares (3.9% vs 4.2%) and UK Government bonds over the past 3 years (3.9% vs 6.7%). What is more, it has achieved a higher Sharpe Ratio than the IMA Mixed 0-35% and UK Government bonds i.e. a better risk/reward ratio.

Commenting on the Strategy's continuing outperformance, Jamie MacLeod, CEO, Bordier (UK) said, "We understand that for many of our clients we are managing capital which cannot be replaced, so our ability to preserve wealth is of paramount importance.

Our approach in managing a Defensive strategy is therefore rather different; we are calm and reliable where others are racy, and often more volatile, but for us it is about investing in the right way for our clients. Our investment team have underlined their reputation for delivering outstanding risk-adjusted investment performance over the longer term once again, recording a positive return for a 13th consecutive year. They managed a positive return for investors even in 2008, when markets were at their most volatile – delivering everything you could wish for in a Defensive strategy."

Defensive is not the only Strategy to have benefited from the investment team's astute asset allocation calls. The Bordier (UK) Balanced Strategy has had no exposure to Emerging Markets funds, which continue to suffer, since late 2013 – and began trimming its Gold exposure in July last year.

The Strategy was zero weight Gold by November 2014, which, given the Gold price now, has proven a shrewd move. These have been contributing factors in the Balanced Strategy outperforming the ARC Sterling Balanced Asset PCI by on average at least 2.0% per annum since the inception of the ARC indices in January 2004.