Money Observer

Core and satellite investment trust portfolios: one year on

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A year after three investment experts suggested a core and satellite portfolio for investors with different risk appetites, Jennifer Hill returns to review performance, and ask the experts whether they would make any changes.

Last May's feature on core and satellite portfolios for cautious, balanced and adventurous investors looks to have been successful and good guidance. Despite markets going into freefall amid mounting investor panic about the coronavirus epidemic, all three have ended the year in the black.

The cautious portfolio was the top performer with a gain of 6.5% in the 12 months to end February. That is as expected given that it is the lowest risk and has the most ballast to withstand severe stock market volatility.

The balanced portfolio trod water with a 0.33% gain. This is also in line with expectations given its balance between risk-on funds that benefited from the strong growth in stock markets last year and defensive funds that helped to stem losses during the market sell-off.

We would have been unsurprised if the adventurous portfolio had been in the red, but it was up 3.5%, having benefited from a recovery in UK property stocks that boosted its holding in TR Property (TRY) and a strong run for Scottish Mortgage (SMT), Britain's biggest investment trust, which has bucked the market rout due to the astute stockpicking of its managers.

We return to our three portfolio selectors for an update on their selections and to ask if they would make any changes to take advantage of current dangers and opportunities…

…**Balanced portfolio**

The balanced portfolio had made 11.1% at the 11-month mark but ended the year just in the black with a 0.33% gain.

Four of its constituents finished in negative territory – Pacific Assets (PAC) in its satellite portfolio (-14.5%), and Fidelity Special Values (FSV)(-8%), Murray International (MYI) (-7%) and RIT Capital Partners (RCP)(-6%) in its core portfolio. Patrick Thomas, the investment director of Canaccord Genuity Wealth Management who constructed the portfolio, is sanguine.

While risk-on equity fund holdings such as Impax Environmental Markets (IEM), Monks (MNKS) and Smithson (SSON) benefited from strong stock markets in 2019 (gaining 14%, 9% and 3% respectively over the year), holdings in Personal Assets Trust (PNL) (+5%) and Civitas Social Housing (CSH) (+1.4%) provided a much-needed defensive element during the "aggressive" market behaviour of 2020.

Thomas is making no changes to the portfolio. He considered swapping Monks for Baillie Gifford stablemate Scottish Mortgage – selling the former at a 3.3% premium and buying the latter at a 5% discount – but decided against it.

"Monks is less concentrated than Scottish Mortgage – definitely advantageous when markets are bumpy," he says.

For Thomas, the most attractive thing about the portfolio is that "it's a very eclectic bunch of funds that are doing very different things". "Around 27% of its portfolio is in consumer defensive stocks, healthcare and utilities – three very defensive areas of the market, which bodes well during periods of volatility."

It has a good slug in absolute return strategies through Personal Assets and RIT Capital Partners. "They tend to underperform on the upside but are very important when markets are wobbly," says Thomas. "That's because they are among the few options that allow investment trust investors to get exposure to high-quality fixed income – that's the way to really defend a portfolio against volatility."…