Three final funds to buy, hold and forget about

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The final instalment of FE Trustnet's series into three funds investors should buy, hold and forget about is with Charles Stanley Direct's Rob Morgan.

Trackers, Fundsmith, Lindsell Train and bonds are some examples that have come up when we asked analysts from The Share Centre, AJ Bell and 7IM for funds that investors can hold and forget about over the long term.

This week, Charles Stanley Direct pension and investment analyst Rob Morgan (*pictured*) takes FE Trustnet through his selection: one open-ended fund and two investment trusts.

There's a unifying theme behind these three picks, as all "focus on capital preservation and have diversified portfolios but would work together well because they invest in different areas to one another – thus correlation between them is relatively low".

Investec Diversified Income

The first offering that Morgan highlighted is the £1.3bn Investec Diversified Income fund, run by John Stopford, head of multi-asset income at Investec Asset Management, and co-manager Jason Borbora-Sheen.

The two managers "draw upon the combined knowledge of the bond and equity teams at Investec".

Morgan said: "The aim is to produce a sustainably high income while providing some modest capital growth. The managers blend what they see as the most attractive opportunities in equities, high yield bonds, emerging market debt and, at times, other areas such as listed property investments and infrastructure.

"Historically, the fund has experienced less than half the volatility of UK equities and has strong a track record of minimising losses during episodes of market volatility. I believe this is a well-managed and relatively straightforward multi-asset income fund overseen by a committed team. The combination of strong returns coupled with relatively low volatility, which is assisted by the regular income the fund generates, has been impressive."

Performance of fund vs sector & benchmark over 5yrs

Source: FE Analytics

The Investec Diversified Income fund has made returns of 19.41 per cent over the past five years, slightly underperforming compared to the IA Mixed Investment 0-35% Shares sector but posting lower volatility and maximum drawdown numbers. Over the same period, an initial investment of £10,000 would have led to income payouts of £1,981.

The fund has an ongoing charges figure (OCF) of 0.76 per cent and a yield of 3.28 per cent.

Personal Assets Trust

Morgan's second recommendation is FE Alpha Manager Sebastian Lyon's £1.1bn Personal Assets Trust, which seeks "wealth preservation in an uncertain world".

Lyon manages the trust in a similar manner to his open-ended Trojan fund, which is built around 'four pillars' of quality, blue-chips, index linked bonds, gold and cash. According to Morgan, this allocation has proved to be "a resilient combination".

"Returns from these areas often move independently of each other rather than up and down in tandem," he explained. "Over the past 10 years it has lagged the FTSE All Share, its benchmark index, but has demonstrated much less volatility.

"Sebastian Lyon has a reputation for navigating volatility, carefully blending a variety of assets to produce consistent returns. The manager's cautious stance inevitably leads to some unspectacular periods of performance. Indeed over the past few years it has been somewhat left behind by other investments, especially those fully invested in the stock market."

But Morgan added that Personal Assets Trust has tended to come into its own during difficult times. He gave the example of the global financial crisis of 2007 and 2008, when the trust protected capital well while positioning itself for the strong recovery that followed.

"The portfolio is currently cautiously positioned while the manager waits for a better opportunity to increase exposure to equities," Morgan said. "They represent about a third of the portfolio and comprise stable, defensive companies."

Performance of fund vs sector & benchmark over 5yrs

Source: FE Analytics

The trust has made 34.57 per cent over the past five years, underperforming both its average IT Flexible Investments peer and its FTSE All Share benchmark. However, as noted above, its volatility has been significantly lower than the market's and it has lost less during tough times.

Personal Assets Trust has ongoing charges of 0.91 per cent and a yield of 1.32 per cent.

RIT Capital Partners

Morgan's final pick is the £3.3bn RIT Capital Partners investment trust, self-managed by J. Rothschild Capital Management (JRCM).

The investment trust runs an unconstrained approach aiming to deliver long-term capital growth, while making capital preservation a priority. With an aim to "deliver healthy participation in up markets with reasonable protection in down markets", the trust claims to have participated in 74 per cent of market upside but only 39 per cent of the market declines since inception.

Morgan explained: "Around a core of managed equity funds and selected individual stocks, the managers add absolute return and bond strategies, as well as differentiating the portfolio through active currency management, downside protection through derivatives and investments in private companies.

“Coupled with a flexible approach towards controlling the level of risk, this combination of assets results in a diversified portfolio capable of strong returns but with less volatility than the stock market – a goal that resonates with many investors. Of the three this tends to have the highest exposure to equities, especially if you count the private equity exposure.”

Performance of fund vs sector & benchmark over 5yrs

Source: FE Analytics

The only outperformer from Morgan’s three recommendations, RIT Capital Partners has made returns of 73.39 per cent over the past five years, beating its average IT Flexible Investment peer with its gain of 39.86 per cent.

The trust has ongoing charges of 0.45 per cent and a yield of 1.60 per cent.