

# Kames Ethical Cautious Managed B Acc

November 2018

## Outcome

The fund aims to deliver longer term capital accumulation through capital growth with some income by investing in a diversified range of UK equities, bonds and cash which meet a set of strict ethical criteria. The ethical screening criteria means that the fund will have a more restricted universe of securities to select from compared to other non-ethical peers and the screens tend to bias the portfolio towards small and medium sized companies.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
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## Performance Objective

The managers aim to outperform its composite benchmark of 50% FTSE All Share Index and 50% iBoxx Sterling Non-Gilts Index over the long-term.

<b>Active/Passive:</b> Active	<b>IA Sector:</b> IA Mixed Investment 20-60% Shares
<b>Launch Date:</b> 01/03/2007	<b>Fund Size (as at 30 Sep 2018):</b> £544.0m
<b>Yield (as at 13 Nov 2018):</b> 2.1%	<b>Distribution Pay Date:</b> Feb 01, May 01, Aug 01 (Final), Nov 01
<b>Fund Manager:</b> Audrey Ryan, Iain Buckle	<b>Ongoing Charge Figure:</b> 0.79%
<b>Domicile:</b> United Kingdom	<b>Transaction Cost ex Ante:</b> 0.16%
<b>Multi-Manager:</b> No	



## Fund Opinion

We have a high regard for the fund managers who have a strong understanding of risk at both an individual position and the aggregate portfolio level. They are supported by Kames' well-resourced equity and fixed income teams. The fund's asset allocation mix originates from the highly experienced Global Policy Strategy (GPS) group that draws on the views of the underlying investment teams within the business. Kames foster a strong team based approach to research and investment management and this has enabled the GPS group to successfully assess the macroeconomic environment and adeptly navigate the fund through changing and challenging market conditions.

This fund is managed to strict ethical criteria, which has a significant impact on the underlying investable universe. However, the managers have proven themselves proficient at interpreting the views of the GPS group whilst delivering attractive long term performance within the constraints of the mandate. Investors should note that the fund's ethical restrictions may result in a return profile that is different to the broader peer group.

We believe this may be a suitable choice for investors looking for a relatively stringent ethical multi-asset strategy which will have a balance of predominantly UK equities and bonds.

## Fund Description

The fund is co-managed by Audrey Ryan and Iain Buckle. Ms Ryan joined the firm in 1997 from General Accident and is the lead manager on a number of UK equity strategies including the Ethical Equity fund, which she has managed since 2000. Mr Buckle joined Kames in 2000 from Baillie Gifford where he was a fixed income analyst. He has 20 years industry experience. The team also draws upon the input and experience of the Global Strategy Policy Group, headed by CIO Stephen Jones, for their macroeconomic views.

This fund can be viewed as having a 'dark green' mandate, which means it is managed to a strict set of ethical criteria. From the outset, a largely quantitative, negative screening process is applied to the FTSE All Share and the iBoxx bond indices in order to exclude companies on the basis of their business activities. These screens are managed by the Corporate Governance team, which sits separately and is responsible for the analysis of relevant environmental, social and governance issues.

More explicitly, the ethical screens exclude companies that are involved in armaments, nuclear power, genetic engineering, gambling, alcohol, tobacco, pornography or whose business activities are deemed to damage the environment. Firms are also removed if they have made political donations in the past year, engaged in harmful practices to animals and operate in countries with poor human rights records and/or have no established management policies on human rights issues. International banks with a large exposure to Third World debt is another explicit exclusion.

Within the equity component, Ms Ryan looks to combine fundamental research with a valuation assessment. The manager takes a pragmatic approach to investment, though the ethical screens tend to mean there is a structural bias to medium and smaller companies in the portfolio as many larger firms are naturally excluded. On the bond side, Mr Buckle is looking to incorporate the fixed income team's top-down views on interest rate sensitivity, sector allocations and rating exposures using ideas from the team's analysts. From an asset allocation view, the fund's neutral starting position is 50% in equities and 50% in fixed income, which is adjusted by up to 10% on either side of this to reflect the house view. The fund's allocation to cash can reach 20%. Up to 10% of the fund's assets can be invested in sub investment grade bonds. The fund can hold government bonds only if they meet the strict ethical criteria. Derivatives cannot be used and the fund's interest rate exposure will be managed through the bond holdings.

## Risk Summary

The manager will invest in a balance of equity and bonds with the aim of diversifying the risks typically associated with investing in equities alone. Whilst this should smooth out some of the potential volatility the fund will not be immune from stock market fluctuations.

The manager will invest predominantly in UK equities and higher quality corporate bonds, whilst following a strict ethical screening criteria. The fund's more restricted opportunity set imposed by the ethical screen and the UK centric nature of the mandate could mean that it may fail to keep pace with the wider market when investments and asset classes which do not form part of its investible universe rally strongly; for example overseas equities and higher yield fixed income securities.

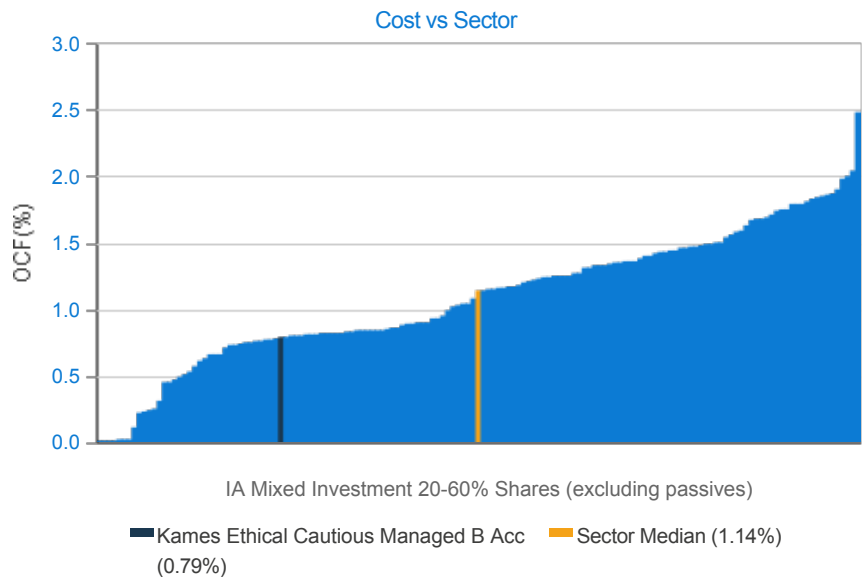
The fund's predominant exposure to sterling denominated assets means that, while exchange rate risk is low, performance of the fund could vary meaningfully at times compared to peers that have a large exposure to overseas assets. The could be for the benefit or detriment of investors.

## Value for Money

(Calculation as at 15 Nov 2018)

This fund's OCF (ongoing charge figure) sits well below the sector median and based on the additional ethical screen which is used by the managers, we feel the fund represents good value for money.

Following the introduction of MiFID II regulations in January 2018, asset management firms are now required to disclose all costs and charges related to the running and administration of funds. This can include items outside of the OCF, such as research costs. As a result, Kames Capital will be absorbing the costs associated with their research, which should slightly reduce the overall fee paid by investors. This step is at the discretion of each fund group, but it is one that a number of firms have followed.



This chart shows the ongoing charge figure (OCF) for the fund relative to the median and all other funds in the sector. Each blue bar represents the OCF of an individual fund's 'primary' share class as meets the Investment Association's definition.

## Socially Responsible Investing

The fund follows strict ethical criteria and excludes companies that are involved in armaments, nuclear power, genetic engineering, gambling, alcohol, tobacco, pornography or whose business activities are deemed to damage the environment. Firms are also removed if they have made political donations in the past year, engaged in harmful practices to animals, or operate in countries with poor human rights records, and/or have no established management policies on human rights issues. International banks with a large exposure to Third World debt are also specifically excluded.

An independent in-house Corporate Governance and Ethical Research team are responsible for analysis of environmental, social and governance issues. As well as direct engagement with companies, and with the Kames fund managers, the team also use a range of external data sources including EIRIS Portfolio Manager and MSCI ESG Manager. Kames actively engage with ethical fund holders on a regular basis to ensure their exclusion policies remain in line with the current concerns of their investor base.

## Additional Information

<b>Annualised Return</b>	2.01%
<b>Annualised Volatility</b>	7.16%
<b>Max Drawdown</b>	-6.45%
<b>Max Gain</b>	8.03%
<b>Max Loss</b>	-6.15%
<b>Sharpe Ratio</b>	0.00
<b>Sortino Ratio</b>	-0.20

(3 year data to last month end)

### Currency of Share Class

GBP

### Fund Price (as at 13 Nov 2018)

129.0 pence

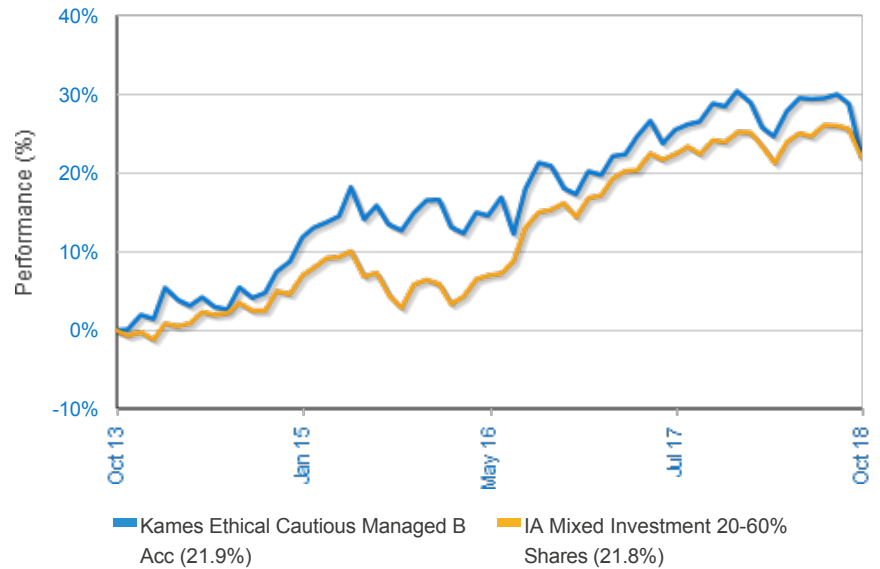
### Benchmark

Composite: 50% FTSE All Share, 50% iBoxx Sterling Non-Gilts

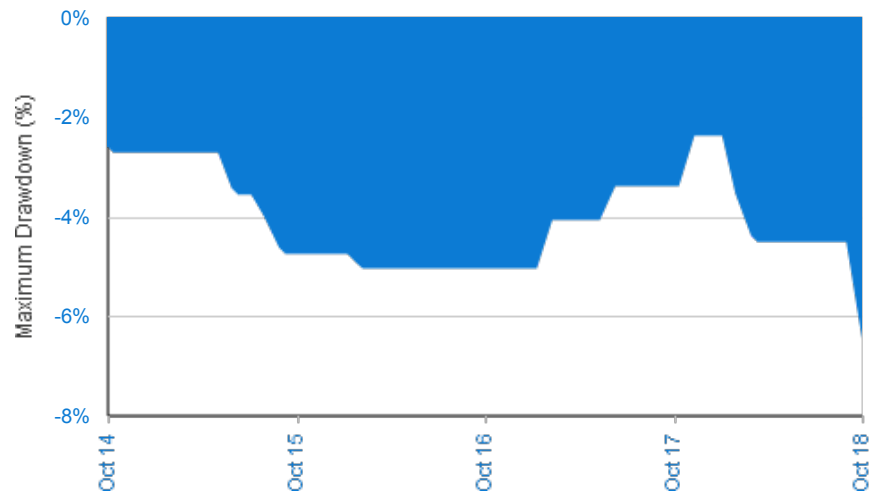
## Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	1.8	2.6	3
12-24m	4.7	6.2	3
24-36m	7.3	12.1	4
36-48m	8.2	0.3	1
48-60m	7.5	5.1	1

## Capital Growth



## Maximum Drawdown (Rolling 12 Months)



### Asset Allocation Positioning

Name	%
UK Equities	52.2
UK Fixed Interest	42.0
Money Market	5.8

(Data as at 30 Sep 2018)

### Top Ten Holdings

(Data as at 28 Sep 2018)

Company Name	%
FERGUSON PLC	2.3
PRUDENTIAL PLC	2.1
RELX PLC	1.9
AVEVA GROUP	1.7
NETWORK RAIL INFRASTRUCTURE FINANCE 3% NTS 07/09/23 GBP100000	1.6
SMITH(DS) PLC	1.6
VICTREX	1.5
KREDITANSTALT FUER WIEDERAUFBAU KFW 0.875% BDS 15/03/22 GBP1000000	1.5
KREDITANSTALT FUER WIEDERAUFBAU KFW 5.5% BDS 18/6/2025 GBP1000	1.5
NORDIC INVESTMENT BANK 0.625% NTS 02/11/21 GBP1000	1.5

### Sector Breakdown

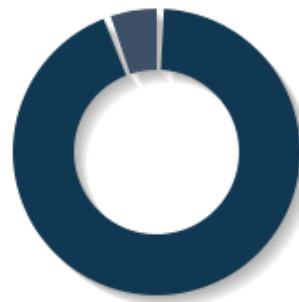
(Data as at 30 Sep 2018)



- Fixed Interest (42%)
- Financials (14%)
- Industrials (14%)
- Consumer Services (7%)
- Money Market (6%)
- Technology (6%)
- Consumer Goods (3%)
- Basic Materials (3%)
- Oil & Gas (2%)
- Other (2.3%)

### Geographic Breakdown

(Data as at 30 Sep 2018)



- UK (94%)
- Money Market (6%)

### Financial Express Crown Rating

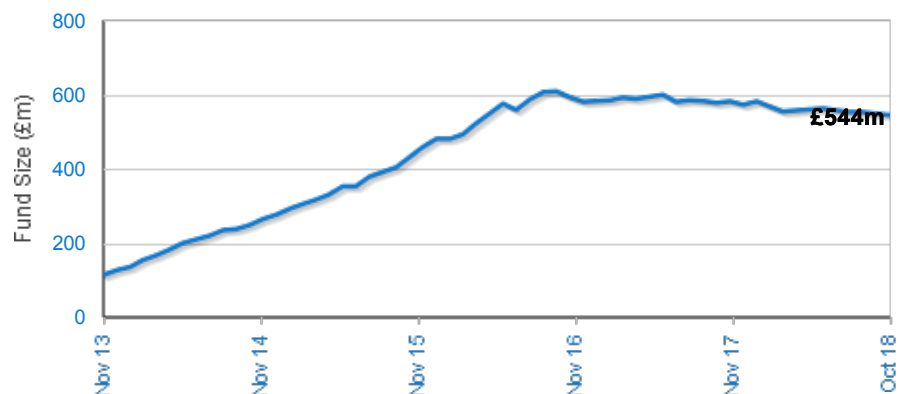


### Financial Express Alpha Manager Rating

N

### Assets Under Management

(Data as at 30 Sep 2018)



## Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk	●		
Interest Rate Risk	●		
Credit Risk		●	
Exchange Rate Risk			●
Liquidity Risk			●
Emerging Markets Risk			●
Derivative Risk			●
Manager Risk		●	

### Equity Risk

The managers will invest a significant proportion of the fund's assets in shares. Shares are volatile investments. At times of economic stress, volatility may rise as might correlations between asset class returns.

### Interest Rate Risk

This is a multi-asset fund. Higher interest rates may adversely impact valuations of many financial assets.

### Credit Risk

This is a multi-asset fund with exposure to credit markets. A widening in credit spreads may impact the fund. Note that wider credit spreads often occur at times of weaker stock markets and/or weakening economies.

### Exchange Rate Risk

The fund will only hold sterling-denominated positions.

### Liquidity Risk

The fund invests in liquid assets and any sale should be possible at close to the prevailing market price.

### Emerging Markets Risk

The fund will only invest in sterling-denominated assets and therefore exposure to emerging market risks are likely to be low.

### Derivative Risk

The portfolio is predominantly invested in underlying cash securities.

### Manager Risk

The managers are seen as an important element in Square Mile's rating of the fund, although potential alternatives may exist elsewhere in the organisation. Square Mile will reappraise the rating if the lead managers were to leave.

FE Risk Rating: 63

SRRI: 4

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