LF Miton Cautious Multi Asset B GBP

January 2019

Outcome

The fund is designed to provide capital accumulation over the longer term. The managers aim to provide an absolute return of 4% - 6% p.a. whilst exposing investors to a low to moderate level of risk. The fund targets a level of volatility over the medium term that is around 50% of equity volatility, as measured by the FTSE 100.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
●			

Performance Objective

The fund aims to provide an annualised absolute return of between 4%-6% over the medium term.

Active/Passive: Active	**IA Sector:** IA Mixed Investment 20-60% Shares
Launch Date: 31/12/1997	**Fund Size (as at 31 Dec 2018):** £505.7m
Yield (as at 11 Jan 2019): 3.0%	**Distribution Pay Date:** Jan 01, Jul 01 (Final)
Fund Manager: Anthony Rayner, David Jane	**Ongoing Charge Figure:** 0.81%
Domicile: United Kingdom	**Transaction Cost ex Ante:** 0.40%

Fund Opinion

David Jane and Anthony Rayner have worked together for many years and have established a good understanding through a well-practised investment process. The pair are part of a small but highly collegiate team and this structure ensures decisions are made quickly and efficiently.

The managers have long demonstrated they are prepared to allocate capital in a benchmark agnostic manner. We like their dynamic and unconstrained approach which are key aspects of the process. Over the longer term, they seek to add value by investing in companies they believe should benefit from structural tailwinds. The managers do this in a considered manner and have a strong focus on risk management and preserving capital. This is also a feature we admire and is in contrast to other strategies which simply blanket buy the whole market.

At the corporate level, Miton has recently made a number of changes to its senior management team, board structure and business policies in order to strengthen its corporate governance. We are comfortable with the moves made by the group and feel the changes have addressed potential shareholder and investor issues. Changes were also made to the remuneration policy of its investment managers but we are somewhat disappointed to note that discretionary pay is now primarily linked to asset growth as opposed to investment performance. Miton are by no means unique using this approach, and we accept that both performance and asset growth are closely linked, but we do not believe this represents best practice and feel the company has missed an opportunity to set itself aside from several peers in this regard.

Nevertheless, we believe this is a strong proposition for the more risk averse investor who requires capital growth - the fund seeks to meet its return objective with around half the volatility of equities. The fund's clear and transparent risk and return targets should help unitholders understand the type of outcome they can expect over the longer term.

Fund Description

The fund's lead manager is David Jane. He joined Miton in June 2014, when the business he founded in 2010, Darwin Investment Management (DIM), was acquired by his current employer. Mr Jane has over 25 years of investment experience across equity and multi asset funds, having worked for many years at M&G, as well as periods at AXA and Newton. Co-manager on the fund is Anthony Rayner, who has around 20 years in the industry. He also joined the firm from DIM having previously also worked alongside Mr Jane at M&G. The pair are supported by a dedicated analyst and dealer.

Mr Jane and Mr Rayner follow a long established approach, which is based on a straight-forward process. This entails collating and analysing fundamental macroeconomic data, understanding the market backdrop and interpreting whether this matches up with current market prices. They look to act where the data does not match the narrative with the resulting pricing anomaly creating an investment opportunity. They believe the market focuses on a small and an immediate number of issues and often tends to be backward-looking with its assessment. The team's approach therefore has a longer term focus and is one which seeks to challenge consensus as this is where they feel the best and most repeatable opportunities lie.

The managers' first consideration is the level of equity risk they wish to take. The fund can hold between 20% to 60% in equities but over the life of the strategy the managers have typically held around 50%. Attention is then paid to the amount of interest rate sensitivity they want within the portfolio. Fixed income securities have also historically made up around 50% of the portfolio and security selection will largely be driven by the team's assessment of the macroeconomic picture. Various data sources are used to build a view of shorter term opportunities and, perhaps more importantly, market risks. Over the long term the focus is on investing in securities that the team believes should benefit from a structural tailwind. The process shows a preference for financially strong businesses, that are highly liquid, attractively valued and which are exhibiting evidence of positive price momentum. Companies are identified in a quantitative manner and are usually separated into baskets of stocks, which play into an identified longer term growth theme. Individual position sizes are based on price volatility, liquidity and correlation with the theme the managers are attempting to gain exposure to. We believe this is different to many managers who select securities on a more conviction led approach. The final portfolio will be highly diversified by number of securities as well as investment themes.

Risk management is key to the overall approach and will be the primary driver of the decision making process. The managers are acutely aware of where the portfolio's risks lie; not just from a high level asset allocation perspective, but also at the individual security level. The fund will have exposure to overseas currencies but the managers see currency hedging as a way of minimising risk rather than enhancing returns and the overall contribution to risk, from this factor, like others is kept to a moderate level.

Risk Summary

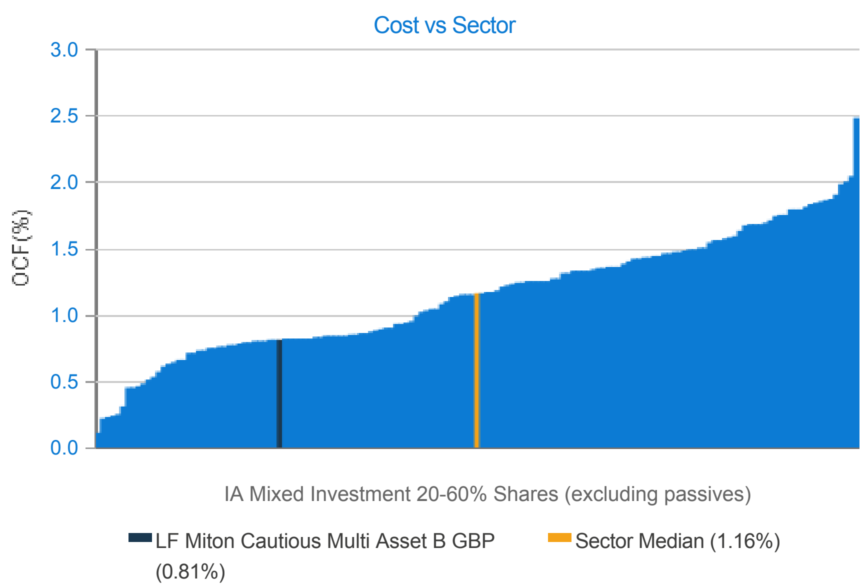
The fund will invest in a wide range of investments and asset classes with the aim of providing capital accumulation. The manager aims to minimise volatility and drawdown risk by maintaining a diversified portfolio and seeking to invest in asset classes which are lowly correlated. There is no guarantee that the manager will be able to achieve this over all time periods and there is the risk of price volatility and capital loss, particularly over the short term.

Value for Money

(Calculation as at 15 Jan 2019)

The fund invests directly in equities and bonds and therefore does not have the double layer of charges that are often associated with multi manager funds in the IA Mixed Investment 20% to 60% Shares sector. Whilst the annual management charge is not among the lowest within the sector, overall we believe the fund represents good value for money, particularly given the experience of the managers.

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. However, in this instance Miton will continue to pass on the costs associated with their research to investors. In our view, this is contrary to the majority of firms and will result in a further small cost to investors not included in the OCF.



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 team has no specified environmental, social and governance (ESG) criteria built into its investment process and these factors are not expected to be major drivers of security selection. That being said, if during the due diligence process ESG factors are likely to affect the fundamental prospects for a security, then these are considered as part of the decision making process. The nature of the way the team selects securities, in terms of quantitatively seeking exposure to themes or macro factors, means that specific criteria can be used to exclude certain types of companies. A good example of this was when the team constructed a basket of Indian equities but chose to avoid firms with dominant family holdings. The view here was that these companies were not being run to the benefit of all shareholders.

In addition, the group has recently hired a dedicated ESG analyst in order to enhance their overall capabilities in this area.

Additional Information

Annualised Return	4.26%
Annualised Volatility	6.49%
Max Drawdown	-9.52%
Max Gain	9.15%
Max Loss	-8.39%
Sharpe Ratio	0.03
Sortino Ratio	0.03

(3 year data to last month end)

Currency of Share Class

GBP

Fund Price (as at 11 Jan 2019)

251.9 pence

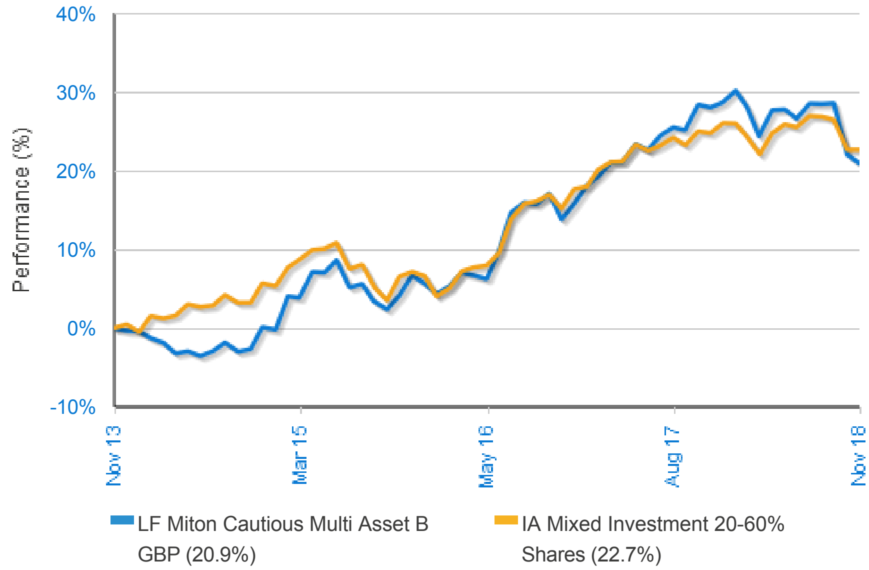
Benchmark

No Specific Index

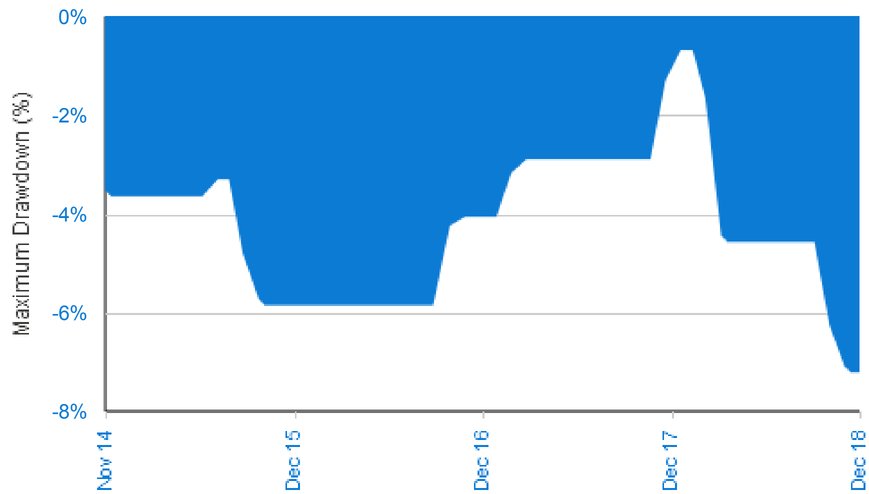
Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	-8.4	-5.1	4
12-24m	11.2	7.2	1
24-36m	9.5	10.3	3
36-48m	5.8	1.2	1
48-60m	0.1	4.9	4

Capital Growth



Maximum Drawdown (Rolling 12 Months)



Asset Allocation Positioning

Name	%
Global Corporate Fixed Interest	19.4
UK Equities	16.7
UK Corporate Fixed Interest	11.6
Global Government Fixed Interest	8.9
Europe ex UK Equities	7.6
US Equities	7.4
Japanese Equities	5.8
Others	22.7

(Data as at 31 Dec 2018)

Financial Express Crown Rating

Financial Express Alpha Manager Rating

N

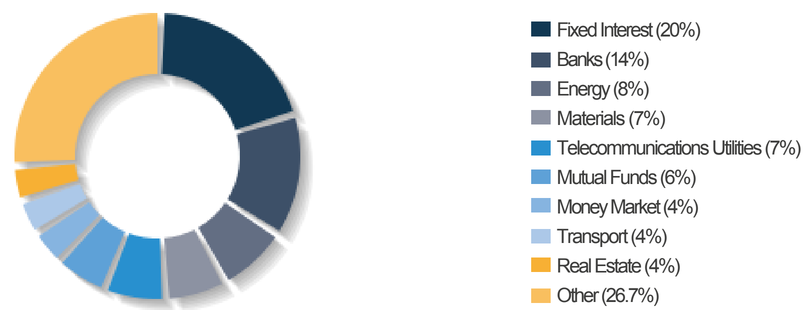
Top Ten Holdings

(Data as at 31 Dec 2018)

Company Name	%
GOLD BULLION SECURITIES LD GOLD BULLION SECURITIES USD	4.3
ITALY(REPUBLIC OF) 5% BDS 01/09/40 EUR6000000	1.7
BT GROUP	1.5
HM TREASURY UNITED KINGDOM DMO 4.5% GILT 07/03/2019 GBP0.01	1.4
HM TREASURY UNITED KINGDOM DMO 3.75% GILT 07/09/19 GBP0.01	1.2
ITALY(REPUBLIC OF) 2.45% BDS 01/09/33 EUR1000	1.2
ITALY(REPUBLIC OF) 2% BDS 01/02/28 EUR1000	1.1
ADMIRAL GROUP PLC	1.0
REPSOL SA	1.0
VODAFONE GROUP	1.0

Sector Breakdown

(Data as at 31 Dec 2018)

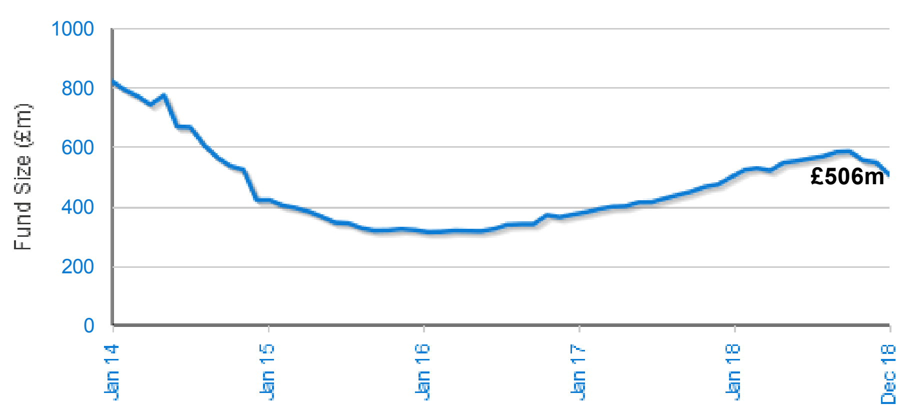


Geographic Breakdown

(Data as at 31 Dec 2018)

Assets Under Management

(Data as at 31 Dec 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 fund is likely to have a high exposure to shares. Shares are volatile investments and this volatility is typically heightened at times of economic stress.

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

Credit Risk
The fund is predominately invested in high quality fixed interest markets. The fund price may fall if interest rates climb more rapidly than expected.

Exchange Rate Risk
The fund has exposure to assets denominated in foreign currencies. Changes to exchange rates may impact the fund price.

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

Emerging Markets Risk
The fund has the ability to invest in securities issued by governments or companies in emerging markets, though the bulk of the portfolio will be focused on developed markets.

Derivative Risk
The portfolio is predominantly invested in underlying cash securities, although the manager does use derivatives, primarily to manage overall risk.

Manager Risk
The managers are seen as a critical element in Square Mile's rating of the fund. Square Mile is likely to downgrade the fund if the manager were to leave.

FE Risk Rating: 63

SRRI: 4