# Defensive Capital Fund

## Targeting long-term growth from a diversified portfolio of alternative assets

For professional advisers only

October 2023

BROOKS MACDONALD

# Overview

The Defensive Capital Fund (DCF) seeks to provide long term growth from a portfolio of diversified investments. It aims to deliver lower volatility returns relative to the wider market, by investing in alternative assets that do not necessarily rely on market growth for positive returns. The fund is likely to be of particular interest to advisers and wealth managers who construct portfolios for their clients.

## What role can DCF play in a client portfolio?

> A defensive building block at the core of a multi-asset portfolio
> Provide exposure to less accessible, alternative investments
> Provide diversification against traditional equities and bonds
> A transparent and simple to explain absolute return fund
> An alternative to your fixed income allocation
> An alternative multi-asset fund

# Why choose DCF?

Focuses on under-researched, non-mainstream investment opportunities, away from traditional equities and bonds

Actively managed to take advantage of pricing anomalies, e.g., caused by index rebalancing or corporate actions

Allocates to defensive holdings that often have an element of fixed return and are typically less volatile than equities

Launched in 2010, the fund has established an impressive track record in a variety of different market conditions, delivering positive returns in 11 of the last 13 calendar years*

Long-only investment approach, without the complexities of long/short or derivative-based strategies

Value bias avoiding expensive areas of the market: the fund tends to have a value bias and generally avoids expensive growth orientated assets

Dedicated research team focused on unearthing value in less accessible and less well-covered areas of the market

* Source: Bloomberg, total return, net of all ongoing charges in sterling as at 30 June 2023. Past performance is not a reliable indicator of future results.

# Fund holdings and asset classes

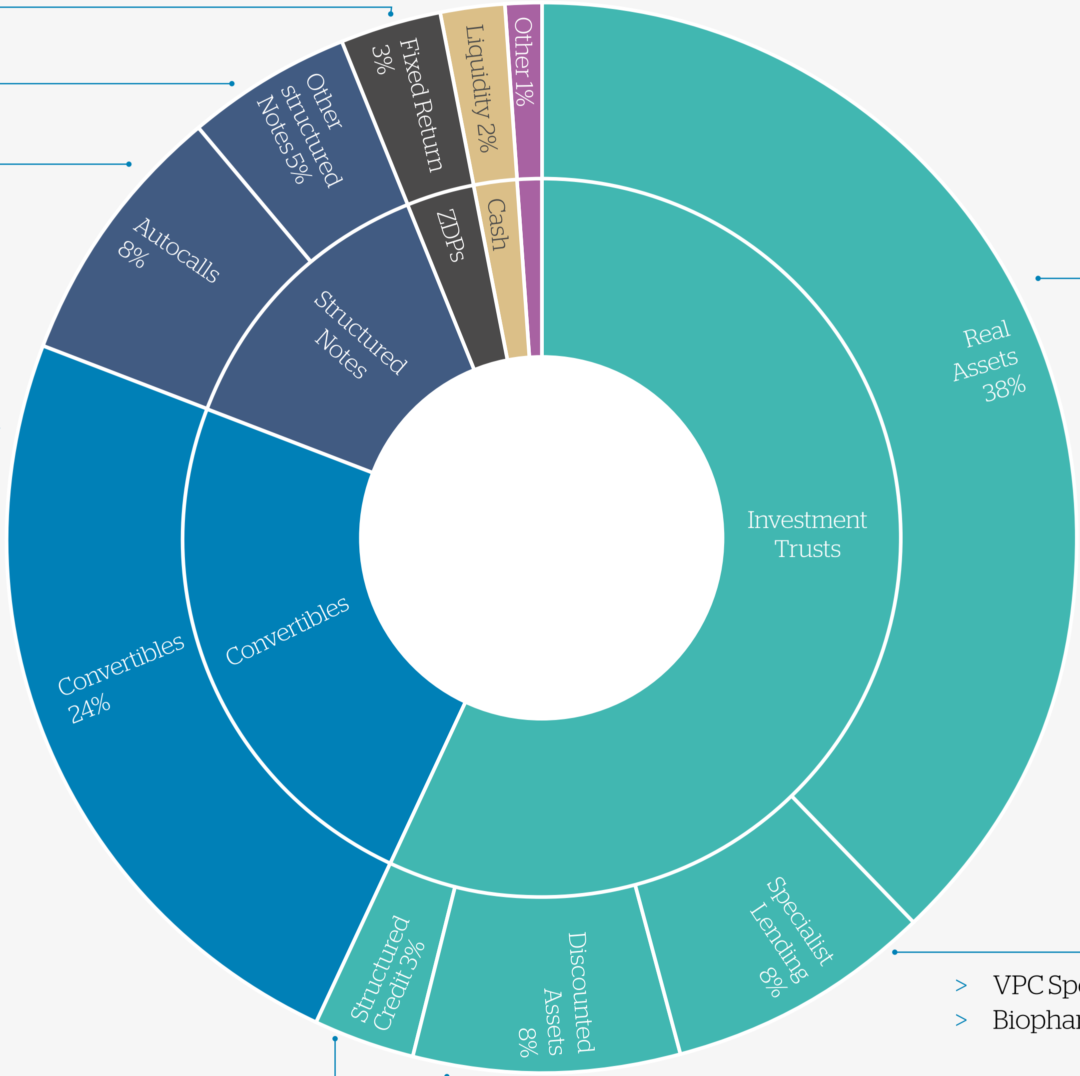
## DCF asset allocation and example holdings

NBPE ZDP 2024

FTSE dividend futures

- FTSE/S&P/eurostoxx/NKY autocall 13.5%
- FTSE synthetic autocall 6.2%

- Wisdom Tree 4.25% 2023
- Jet2 1.625% 2026




Riverstone Energy
Round Hill Music
Empiric Student Property

- VPC Specialty Lending
- Biopharma Credit

Fair Oaks Income

Georgia Capital

Source: Brooks Macdonald, data as at 30 September 2023 for illustrative purposes only.

# Alternatives exposure

The fund invests in a range of alternative assets that are less accessible to individual investors:

| Asset class | Rationale |
|---|---|
| **Structured products** | We construct institutional quality defensive 'autocalls' which are structured notes issued by investment banks that usually pay fixed coupons subject to index performance. |
| **Convertible bonds** | Our specialist knowledge and benchmark-agnostic approach focuses on non-benchmark bonds that usually offer better value or higher yields than benchmark bonds or equivalent corporate bonds. |
| **Fixed return investments** | Zero-dividend preference shares are a lower-risk defensive asset class that often offer attractive yields. |
| **Real assets** | Exposure via investment trusts to investments which provide attractive growth prospects and inflation protection. |
| **Specialist lending** | Exposure via investment trusts to non-mainstream lending opportunities that usually offer better protections, often with higher yields compared to traditional debt. |
| **Discounted assets** | Investment trusts that, in our view, are trading at unreasonable discounts to their net asset value (NAV). |
| **Hedges** | Used opportunistically to provide additional protection at times of particular risks, in line with our macro views. |
| **Cash** | Exposure typically low, but can be held tactically when we feel it is prudent to do so. |

# Benefits of the Defensive Capital Fund

## Dedicated team

Dr Niall O'Connor leads our dedicated DCF. The team is backed by the considerable resources of the wider Brooks Macdonald Group which manages £16.8bn of assets (as at 30 June 2023). The team leverages the expertise of our in-house dealing desk, central research team, 90+ investment managers, as well as other support functions including the Risk and Legal teams.

## Uncovering opportunities

We use research to exploit niche areas of the market. Many of our investment opportunities may be too small, off the radar or just simply unloved by larger investment firms, and often have limited broker coverage. Our active approach also seeks to take advantage of trading opportunities presented by corporate actions, index rebalancing and other valuation anomalies.

## Proactive process

The investment process combines bottom-up analysis which drives stock selection and a top-down approach, based on macroeconomic views to inform asset allocation. Additional adjustments are made to the portfolio to achieve our desired levels of market risk, foreign exchange exposure and liquidity. Risk is a key aspect of portfolio management and a broad range of both backward- and forward-looking analysis is undertaken including stress testing, counterparty risk monitoring and performance attribution.

## Simple strategies

The fund's long-only approach, and the fact that investments have a degree of predictability due to their fixed or targeted return nature, helps us better understand how the portfolio might be expected to perform in different market scenarios, particularly when compared with funds that use more complex strategies, such as derivatives-based, long/short or pair trading.

# Ratings and risk profiling

## Fund ratings

Highly Rated Fund — SharingAlpha — The professionals' rating

defaqto EXPERT RATED — Multi-Asset Return Focused 2023

ELITE RADAR — on our watchlist: FundCalibre.com

FE fundinfo Crown Fund Rating

RSMR Rated Fund

## Risk profiling

Dynamic Planner Profiled 5

FinaMetrica — Risk Tolerance Profiling

defaqto 3 RISK RATING — VERY LOW RISK

# Contact

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## Important information

This document is intended for professional advisers only and should not be relied upon by any persons who do not have professional experience in matters relating to investments. The value of your investments and the income from them may go down as well as up and neither is guaranteed.

Investors could get back less than they invested. Past performance is not a reliable indicator of future results. Changes in exchange rates may have an adverse effect on the value of an investment. Changes in interest rates may also impact the value of fixed income investments.

The value of your investment may be impacted if the issuers of underlying fixed income holdings default, or market perceptions of their credit risk change. There are additional risks associated with investments in emerging or developing markets.

The Defaqto and Synaptic ratings are designed to help professional advisers recommend the appropriate fund after they have assessed the client's attitude to risk using these risk profilers. Risk profiling is only a part of overall suitability assessment and this guide should not be relied upon in place of a comprehensive suitability assessment. The professional adviser remains responsible for advising the client on whether the recommended fund is suitable to the client's personal circumstances.

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The risk ratings set out in this document have been prepared by Distribution Technology Limited ("DT") and are based on analysis conducted by DT in September 2023. The stated 'DT risk level' is the risk level attributed to the model portfolio by a third party, Distribution Technology Limited ("DT") following DT'S analysis. The stated DT risk level is valid as at the stated date; however, market fluctuations can mean the level of risk in the portfolio might change over time. Brooks Macdonald has not verified the risk level attributed to the model portfolio by DT and makes no warranty as to its accuracy. Accordingly, Brooks Macdonald will not accept any liability arising from any reliance on the stated DT risk level.

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More information about the Brooks Macdonald Group can be found at www.brooksmacdonald.com.

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