

Protect your portfolio

We have highlighted two examples of absolute return funds which may interest you. The fund below is an example of a long/short equity fund. It was strengthened in 2013 with the addition of Nigel Ridge, who has over 25 years' investing experience, and has now been added to the Chelsea Selection.

BlackRock UK Absolute Alpha



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UK Absolute Alpha

Even the most enthusiastic investors may become a little less optimistic as 2016 progresses. On the one hand, markets must contend with a shift in US interest rate policy and on the other, concerns over China will no doubt weigh heavily on investors' minds. Issues like these could have wide-ranging implications for stock markets and it is likely that swings in the value of shares will be an ongoing challenge.

VOLATILE RETURNS

In the UK in 2015, the FTSE All Share index was largely flat. The headline return masks large fluctuations throughout the year, which point to growing investor uncertainty. The market ups and downs were a healthy reminder of the importance of picking the right shares. While the oil and gas sector fell significantly, consumer services companies were relatively strong. There was also a meaningful difference between the best and worst performing shares. It is difficult to see this picture changing materially in 2016. How can investors help reduce the impact of this volatility on their portfolios?

Many prudent investors are increasingly reluctant to put all their eggs in one basket in the hope that markets will continue to rise. Instead, more and more investors are looking to identify investments that perform in different ways at different times, to help smooth their journey. Actively-managed funds are one such option, where the fund manager's stock selection is deemed more important than the market itself because he/she seeks to outperform it. Within this world, investors could also consider targeted absolute return funds, where managers aim to profit from falls in stock prices, as well rises.

OUR PROCESS

The BlackRock UK Absolute Alpha fund is one such absolute return strategy. We seek to deliver an absolute return - a return above zero over a rolling 12-month period (although this isn't guaranteed) - from investing in share prices moving in both directions. We aim to achieve this outcome whether the market is rising, falling or simply moving sideways.

BLACKROCK UK ABSOLUTE ALPHA

- Fund re-structured and strengthened with the addition of Nigel Ridge in 2013
- Nigel has 25 years' investing experience
- Long/short equity strategy that combines long and short positions with pair trading strategies
- Seeks to deliver a positive return over a rolling 12-month period
- High conviction but typically conservative net exposure to the market

Deep and rigorous research is at the heart of the investment approach. Our experienced team of 18 investment professionals constantly research the UK stock market universe. Analysis incorporates a thorough assessment of a company's likely future and we ask what might go wrong, as well as what we think could go right. We also draw on BlackRock's global investment insights and our in-house risk analytics to help try and build a better understanding of companies relative to the market.

We buy and hold individual shares we believe will rise over the longer term, but also look to sell-short stocks which are overvalued and where we believe the price is likely to decline. We combine these positions with a more conservative pair trading strategy. This strategy combines our positive and negative view on companies in the same sector, thereby 'neutralising' the effects of the sector performance and focusing solely on the difference between the underlying performance of the two companies involved. As such, even if, say, tobacco companies were to fall, we could benefit from the fact that the shares of one tobacco company fall more than another. For example, we might go long Imperial Tobacco and short British American tobacco, or vice-versa, depending on our view.

PORTFOLIO CONSTRUCTION

Portfolio construction, the way we combine and manage investment ideas collectively, is equally important as the stocks we choose. It is vital to look at the risk of the portfolio in aggregate, rather than looking at stocks individually. We continuously look to understand the overall composition of our investment ideas in partnership with our risk team. This is to make sure we are comfortable with any biases (to a particular industry or theme, for example) that exist as a result of our stock-picking approach.

BlackRock UK Absolute Alpha has two defining characteristics. Firstly it aims to dampen risk for investors, which means it can potentially act to reduce the overall vulnerability of an investor's portfolio to the swings in the stock market. Equally, it aims to generate returns solely from picking the right shares, rather than being dependent on the direction of markets. Both of these characteristics should hold significant appeal given signs of heightened nervousness from a growing number of investors.

CHELSEA RISK RATING:	■■●■■■■ 4
ANNUAL MANAGEMENT CHARGE:	0.75%*
ONGOING CHARGES FIGURE (OCF):	0.93%
PERFORMANCE FEE:	20% OF ANY RETURNS ABOVE 3 MONTH LIBOR, SUBJECT TO A HIGH WATER MARK

THE CHELSEA VIEW:

"Since Nigel joined, we think the fund's process has improved. It now has higher conviction but remains relatively uncorrelated to the wider market. We are also pleased that the fund no longer short-sells illiquid smaller companies, which can be difficult positions to get out of."

Continued overleaf...