

## Portfolio of Funds

### Investor Update February 2016

Morningstar provides an update to the Openwork Investment Committee each quarter about the Portfolio of Funds that we have recommended you invest in. The Openwork Investment Committee has considered the latest reports and the following summarises the key points.

#### History of changes

The Portfolio of Funds launched in February 2012.

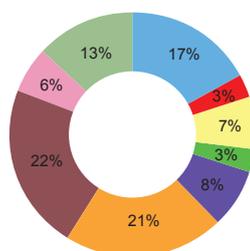
Since then, due to market changes and changes to individual funds, the Openwork Investment Committee has updated the Portfolios as follows:

Portfolio risk rating	Launch date	Updates made
Cautious	February 2012	May 2013, September 2014, July 2015, October 2015
Balanced	February 2012	May 2013, September 2013, September 2014, October 2015
Adventurous	February 2012	May 2013, September 2013, November 2013, September 2014, October 2015

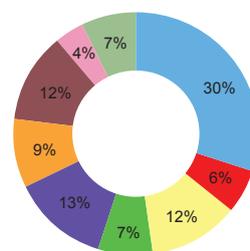
If you are unsure which version of the Portfolio of Funds you are invested in, or would like to understand the differences, please speak to us.

#### Asset allocation - UNCHANGED

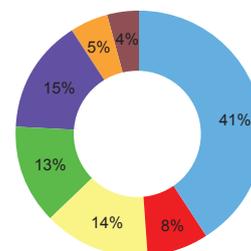
The Portfolio of Funds offers you a diversified investment portfolio that invests in funds from some of the most recognised fund managers in the marketplace. As a result of changes in Morningstar's capital market assumptions and to Openwork's recommended funds, the asset allocation for the Portfolio of Funds remains unchanged as shown in the graphs below:



Cautious



Balanced



Adventurous

## Underling Funds

There are no changes to the underlying funds in the Portfolio of Funds

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## Market Summary

Risk assets rallied strongly over the quarter, particularly in October as fears of a Chinese/emerging market led global downturn somewhat abated. In contrast, fixed income struggled in Q4, as the FOMC increased rates in the US and the ECB's quantitative easing announcement disappointed markets. Sterling was weak against most currencies, meaning that holding foreign assets boosted returns for sterling investors.

The scale of October's equity market rebound from the summer sell-off ensured that even a weak December could not prevent strong fourth quarter returns. MSCI ACWI finished the quarter over 5% ahead in local currency and nearly 8% up in sterling terms. Japanese and US equities led the way with strong double digit sterling returns, followed by mid-single digit returns for Europe (6%) and UK (4%) equities. Emerging market equities were at the foot of the tables (3.4%), principally due to relatively weak returns in November as investor sentiment towards the region remained poor. At the global sector level, technology, healthcare and industrials were the best performers. Conversely, energy and materials stocks once again ranked among the worst performers as commodity prices continued to slide, with financials and utilities also underperforming in most regions.

Within fixed income, total returns were negative across most maturities for US, UK and German government bonds. Over the quarter, 10-year yields increased substantially in the US and UK, although this followed a far greater decline in Q3. The 20bp rise principally reflected the general improvement in economic conditions and the onset of Fed monetary tightening. The worst returns came from the US and the long end of the curve, unsurprisingly given that the heavily signposted rate rise duly occurred in December. Credit tended to outperform government bonds in most regions, with the exception of US high yield which continued to struggle due to its energy exposure and concerns over liquidity.

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## Fund Selection

The top fund contributors to relative performance included:

AXA Framlington UK Select Opportunities – The fund's strong selection explains the vast majority of the outperformance witnessed over the quarter. The consumer cyclical stock selection was particularly beneficial.

Old Mutual UK Alpha – Holdings in Focus, Sage and life assurance names helped the fund to outperform the FTSE All Share by 1.5% over the quarter.

JPM US – Stock selection within the information technology, energy, and industrials sectors drove performance. KLA Tencor (IT) outperformed after it was acquired by Lam Research and Valero Energy outperformed as refining spreads remained high relative to usual fourth quarter levels.

Templeton Global Total Return Bond – The fund's positive currency positioning towards Asia-Pacific and away from the Euro and Japan overall drove the outperformance.

Royal London UK Government Bond – Strong fourth quarter relative to peer group and benchmark, principally due to a defensive lower duration stance as UK gilt yields rose.

The top fund detractors from relative performance included:

Schroder US Mid Cap – The fund lagged the broader US equity market as mid-cap stocks underperformed large-caps by 3%. Performance relative to the fund's benchmark was also poor, as a 5% plus cash weight diminished returns.

Schroder European Opportunities – A poor October, as the fund lagged in the market rally, driven by weak stock selection in defensive growth holdings. Weak numbers affected Bayer and Publicis and the positions have subsequently been sold.

Schroder Tokyo – Sector allocation was negative, with the pro cyclical bias and the underweight defensives detracting the most.

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#### **Risk Warnings And Other Important Information**

*Past performance is not a guide to future performance. The value of an investment and any income from it can fall as well as rise as a result of market and currency fluctuations. You may not get back the amount you originally invested. This document is issued by Openwork Limited (Openwork) which is authorised and regulated by the Financial Conduct Authority ([www.fca.org.uk](http://www.fca.org.uk)) in the UK. Openwork's registered office is Washington House, Lydiard Fields, Swindon, SN5 8UB, Company No: 4399725.*

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