Tavistock Wealth - ACUMEN Capital Protection Portfolio (ACPP) ACUMEN Income-Protection Portfolio (AIPP)

The Dynamic Planner View

These portfolios will clearly appeal to investors who require more certainty over the value of their investments and are prepared to forego an element of upside in return for limited losses. In a retirement drawdown scenario, this may be particularly important as significant losses can have a material impact on income.

The funds are keenly priced with an OCF, for the underlying funds plus the protection, of 1.35% and 1.38% respectively. The funds are invested in a range of ETFs constructed by Tavistock Wealth and the protection is in the form of a put option issued by Morgan Stanley. It would be unfair to compare these funds to previous iterations of Constant Proportion Portfolio Insurance (CPPI) funds, which are managed to a volatility target. As markets fall, the weighting to cash increases, but, as the market recovers, the allocation returns to the risk assets. This means they will not be 'cash locked'. They are also daily priced UCITS funds, giving investors much greater liquidity.

The ACPP has a target volatility of 5%-7% and the AIPP 7%-9%. These equate to a risk profile 4 and risk profile 5 on the Dynamic Planner risk scheme.

These funds are a positive addition to the marketplace and could be used as an alternative to smooth managed funds, or as a core multi-asset holding in a portfolio. Many of the concerns and criticisms of previous product designs have been addressed, giving much greater confidence in the longevity of these funds.

Summary

Tavistock Wealth has launched two protected portfolios in association with Morgan Stanley, the ACUMEN Capital Protection Portfolio (ACPP) and the ACUMEN Income-Protection Portfolio (AIPP). Even though they offer different levels of protection, the principles are the same. Customers can choose to invest in a range of globally diversified assets safe in the knowledge that in the event of a crash in asset values their own portfolio will only experience a limited loss. The structure and design are reminiscent of the old fixed term CPPI products, but Tavistock Wealth has cleverly addressed the fundamental issues affecting them.

The level of protection for the ACPP is a maximum loss of 10% and for the AIPP is a maximum loss of 15% - and is calculated as a percentage of the highest ever unit price. Therefore, as the value of units in the fund increases so does the protection level. In time, the guaranteed protection level could exceed the initial investment.

[Source: Distribution Technology, August 2018]

Please note that the Dynamic Planner Fund Ratings reflect the results of Distribution Technology's quantitative research process and are provided for information purposes only. They should not be construed as specific investment advice, but instead they provide a structured approach for refining and monitoring a selection of funds which would be suitable for further consideration by users of Dynamic Planner.

Summary (continued)

The difference in protection is directly linked to the risk of each portfolio. The ACPP fund operates to a volatility target of 5%-7% and the AIPP of 7%-9%. If volatility moves outside of these bands, the asset allocation will automatically change to compensate. In theory, over the long-term, investors should be rewarded with higher returns for accepting higher risk, but the returns will always lag the unprotected portfolio equivalent due to the slightly higher costs.

The ACUMEN portfolios are daily priced UCITS funds, so liquidity is not an issue, which has often been the case with other fixed term protected products. The funds cannot be 'cash locked' and as such will not restrict the potential upside in recovery. This is due mainly to a combination of the use of rolling four-year duration put options, which are long enough to cover a typical crash to recovery cycle and the volatility targeting of the underlying funds. The asset allocation will invest greater levels in cash in a falling market and will move back into risk assets as the markets recover. In theory, the combined value of the investable assets, plus the value of the put option will always equal or exceed the protection level.

Historically, any type of portfolio protection was expensive which had an adverse impact on returns. In some cases, the cost of protection increased or the term limit for protection was extended. The ACUMEN portfolios are very keenly priced. Including the cost of protection, quoted OCFs are 1.35% and 1.38% respectively, which compares favourably with actively managed multi-asset funds. Jupiter Merlin Growth for example has an OCF of 1.74%.

Protection is provided using put options underwritten by Morgan Stanley, so protection will be compromised if Morgan Stanley fail. S&P has assigned Morgan Stanley an A+ credit rating which is 'low risk'.

Key Facts

ASSET TYPE:	Daily priced UCITS Funds managed by FundLogic SAS
OCF:	1.35% (ACPP) & 1.38% (AIPP)
LAUNCHED:	May 2018
MANAGER:	Christopher Peel (Chief Investment Officer, Tavistock Wealth)
RISK:	ACPP DT4 & AIPP DT5
AVAILABILITY:	At time of writing, all wrappers on Novia, AVIVA, Praemium and Transact. Please contact Tavistock Wealth for an updated list of platforms.

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