

PUTTING HEARTWOOD'S PERFORMANCE UNDER THE SPOTLIGHT



Heartwood Investment Management's Alan Sippetts explains why the group is taking a barbell approach to enhance flexibility

POSITIONING

As the eurozone debt crisis continues to weigh on markets and global growth, Heartwood is adopting a barbell approach in its Cautious model. Having a 15.7% cash allocation enables the team to react quickly to any potential negative news, says investment director Alan Sippetts.

'It is a narrow path that we are treading between low growth, debt reduction and the risk of recession, but outside Europe the outlook appears to be improving. We have still got corporate growth and corporate profitability growth. Despite the fact we are overtly multiple-asset, we have got quite a chunk in equity and corporate debt, and quite a chunk in cash.'

Over the past year, Sippetts has reduced commercial property exposure and more recently has gradually increased exposure to emerging markets through cashflow focused equity managers.

PERFORMANCE

Over the 12 months to the end of December, the Cautious strategy has posted a 0.8% rise, while the ARC Sterling Cautious private client index is down 0.9%. Between July and October, drawdown was -5.58% for the fund. Over the past three years, the model is up 26%, outpacing a rise of 13.9% by the ARC index.

Although the team did not benefit from the strong performance of gilts during the second half of last year, Sippetts is pleased with the Cautious strategy's fixed income allocation, highlighting index-linked government and corporate bond holdings as particularly strong performers.

The strategy also benefited from manager selection, with Sippetts highlighting the Morgan Stanley Global Brands fund and BH Global Macro as particularly strong performers in 2011.

OUTLOOK

'We have a pro-growth positioning, though we are well aware of some sizeable risks - Europe, Iran - which prevent us taking a more positive position,' Sippetts said.

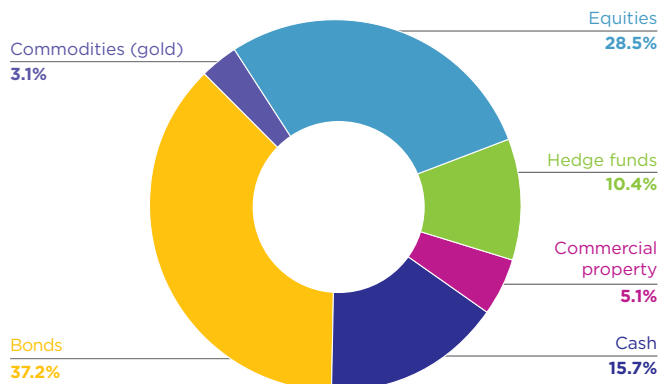
Although not holding conventional gilts held back performance last year, it is a call that he stands by in 2012. 'We are very sensitive to the fact that sterling government bonds act as a shock absorber when things don't really go the way you want them to, but government bonds are expensive,' he said.

'We are of the view that for government bonds to get more expensive still, the world has got to become a really scary place. This is not the scenario we envisage.'

The Cautious model also has a reasonable exposure to hedge funds at 10.4%, a 3.1% allocation to gold, alongside exposure to US commercial property through the iShares FTSE ESPRA NAREIT US Property Yield fund.

HEARTWOOD'S CAUTIOUS MODEL AS AT 16 JANUARY 2012

SOURCE: Heartwood Investment Management



ONE-YEAR PERFORMANCE

0.8%

ARC STERLING CAUTIOUS BENCHMARK

-0.9%