



## QUARTERLY FUND UPDATE

# DIVERSIFIED TARGET RETURN FUND

## MARCH 2012

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### MARKET REVIEW

Global equities performed strongly in the first quarter of the year as US economic data remained robust and the sovereign debt crisis in Europe showed signs of easing. In Europe, the European Central Bank (ECB) committed to loan unlimited amounts of money to European banks at low interest rates and another bailout package was agreed for Greece in return for stringent austerity measures in the country. In Asia, government policymakers continued their change in focus away from countering inflationary pressures and towards stoking domestic growth. All markets performed well over the month, although Europe outperformed, driven by strong gains in German equities. Meanwhile, after the strong performances of 2011, core government bonds found the first quarter of 2012 tougher going. With US economic data showing signs of improvement and the EU taking firmer action to control its sovereign debt crisis and support the region's banks, risk appetite improved significantly. Peripheral sovereign bonds on the whole performed much better, while in credit there were strong returns from high yield and subordinated financial securities.

### FUND PERFORMANCE AND ACTIVITY

The Fund outperformed its cash benchmark over the quarter with most areas of the portfolio generating a positive return. The better global growth picture saw equities, specifically those that are actively managed and focused in select areas of the European and the UK markets, make the greatest contribution to performance.

High yield bond holdings, which benefited from the more constructive backdrop for risk assets, were also important in generating positive returns. Structured beta positions (where exposure to the equity market is provided using options) performed consistently well. Amongst real assets, infrastructure added value but real estate detracted from returns.

In terms of activity, exposure to company dividends was increased by adding positions in 2012 dividend futures in the UK and Europe. These have historically proven to offer a more stable return profile than direct equity exposure. Exposure to high yield bonds was also increased in January, when risk appetite was rising, before profits were taken and the position

trimmed back in February and again in March. The Jupiter UK Special Situations Fund was removed from holdings and the capital reallocated to dividend futures on the basis of attractive valuations and improving underlying corporate conditions. Elsewhere, other isolated equity positions were exited in favour of the Fund having exposure to European dividends and Japanese equities. We also re-established a relative trade favouring US equities over European equities.

### OUTLOOK

Despite an improvement in the global macroeconomic backdrop, most notably in the US, a number of hurdles could hamper a return to trend levels of growth. Firstly, whilst activity in the US has picked up, progress remains fragile. Secondly, the tentative signs of improvement in the US contrast sharply with continued weakness in mainland Europe, where peripheral nations remain under acute pressure. Finally, a number of key emerging economies, most importantly China, are seeing a slowdown in the pace of their growth. This leaves risk assets, which gained in the first quarter on the cyclical backdrop and ample central bank liquidity, vulnerable to bouts of profit taking.

Divergent economic trends are likely to become more apparent in the coming months and should provide a range of tactical opportunities across the investment universe. A core investment theme in the coming months is likely to centre on the prospect of self-sustaining US economic growth versus a number of European nations which are already tipping back into recession. We start the second quarter with a well balanced degree of cyclicity embedded into the portfolio combined with a wide range of opportunistic and real asset positions which are less sensitive to simple market direction. Our outlook suggests that markets will be punctuated with periodic bouts of volatility, in response to unresolved issues creating pockets of risk aversion, and this should provide for interesting tactical opportunities.

Please note the value of investments and any income from them will fluctuate and is not guaranteed (this may be partly due to exchange rate fluctuations). Investors may not get back the full amount invested.

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