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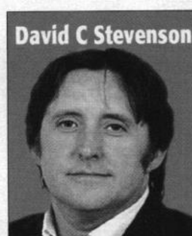
A "one-stop investment shop"

If you favour high-quality stocks and bonds, consider this new fund

David C Stevenson



If you're looking to invest in a fund, there are several key issues to focus on. How does the manager build a portfolio over both the short and long term? Are the manager's interests aligned with your own – how much skin do they have in the game? Is the manager good value – is their distinctive view of the market worth paying extra for, compared to a passive alternative? And what about your own needs? You might be quite adventurous, which means you'll ideally find your own managers (and shares) to combine in a diversified portfolio. But many investors don't have the time or desire to go down the DIY route. What they really want is a "one-stop investment shop" – one manager who can do all the hard work in one fund, at a reasonable cost, and in a sensible, consistent manner over both the short and long term.

Boring can be best

In this "boring is best" category, we're looking for managers we trust to do both the big-picture, long-term thinking and the short-term repositioning of the portfolio. In my experience, this is something few can deliver on. Funds I've tipped in the past include **Personal Assets Trust** (LSE: PNL), **Capital Gearing Trust** (LSE: CGT), **BACIT** (LSE: BACT), and **Witan** (LSE: WTAN). But the competition is limited. There are many multi-asset-class "balanced risk" funds, but they're mostly not up to the job.

This brings me to a relatively new fund, **Tellsons Endeavour** (tellsons.co.uk). To cut a long story short, if you're looking for a one-stop investment shop, this could be an interesting one to browse in. I'll need to see it in action over the next five to ten years before I'd commit – only time will tell if the managers have picked the right theme. However, I do think this very small (sub-£25m) fund has done enough to stand out from its rivals. Firstly, it has a coherent, convincing strategy.

The managers believe that, regardless of whether the world is stymied by deflation, or struggles with future inflation, the best defensive assets are high-quality companies with defensible business franchises and brands. This isn't a unique view – it's been used successfully by established managers such as Nick Train from Lindsell Train. But what is unusual is that the fund invests in both equities and corporate debt (bonds). In effect, it aims to preserve capital using a mixture of assets, ie, a multi-asset approach. This seems sensible – different assets perform differently over time. During turbulent times, we might expect bonds to beat equities, and vice versa.

Boring managers might be just what you need

> "We're looking for managers to do our long-term thinking and short-term trading for us"

Flexibility matters

The fund currently looks to have a 60/40 equities/bonds divide, but that can go to 30/70 in favour of either. That takes us to the next benefit – flexibility. The managers can take more or less risk by changing those percentages, or by moving into cash, which can form up to 40% of the portfolio. My one concern is that sticking to three assets – corporate bonds, blue-chip equities and cash – may mean ignoring other sources of value, perhaps gold or government bonds. But Tellsons prefers to keep things simple. Right now, that means being bullish on global names such as Veolia, General Electric, CVS Health, Orange and Comcast. The running yield is 3.1%.

Finally, while this fund isn't cheap compared with a passive provider that mixes asset classes – such as Vanguard (costs for its LifeStrategy mixed funds are not far below 0.3% a year), it's still good value. Investors can pay 1.31% a year, or just fund costs of 0.31% a year, then 20% of any outperformance over a threshold (the average of the return on short-dated gilts, plus the rolling five-year consumer price index inflation rate). The managers' interests are aligned with those of investors – the partners have all of their wealth invested. Also, they say they'll focus on just one fund, and not turn into another hunter-gathering asset manager.

What happens when QE ends?

I do have some worries, in particular the focus on corporate assets. In any big sell-off after the end of quantitative easing (QE), investors might take a very different view of blue-chip global brands in developed markets – they might see the shares as overpriced, and as having benefited from an unprecedented era of easy money and low rates. At that point, anything alternative (gold, for instance) might look attractive, as might government bonds, which will no doubt be yielding more by then. So only owning corporate assets might not be a good idea.

There's also the question of performance. Since inception a few years ago, it's returned an average of 3.7% a year. Year to date it's down 0.1% versus a FTSE 100 gain of 4.1% and 2.1% for corporate bonds. Not too exciting, but that's probably unfair, given its long-term focus. The managers put the recent underperformance down to being "overweight" the US and trying "to protect against the rising yield curve a little early" (see page 8), although "that position is now paying back". The real measure of a fund like this will come during the next big sell-off and bounce back – we need to see a full stockmarket cycle of returns and losses before we can judge its strategy's robustness. But the fund is one to watch, with a unique approach based on conviction and alignment with what many defensive investors want over the long term.